Largest Taxpayers

Listed below are the ten largest property taxpayers in the City and their Taxable Valuations.

Table 20–Ten Largest Taxpayers

Fiscal Year Ended June 30, 2004

	Taxable Valuation		
	Real Estate	**Personal Property**	**Total**
DaimlerChrysler AG (1)	$ 128,767,660	$ 610,099,600	$ 738,867,260
DTE Energy	52,924,711	453,910,762	506,835,473
General Motors Corporation (1)	49,134,783	129,078,070	178,212,853
Riverfront Holdings Inc.	123,150,856	-	123,150,856
American Axle & Manufacturing	16,901,259	75,052,600	91,953,859
One Detroit Center	53,207,221	108,030	53,315,251
Cingular Wireless	-	47,738,424	47,738,424
Kewadin Greektown Casino	28,426,871	11,949,480	40,376,351
Detroit Entertainment LLC	16,845,374	20,290,190	37,135,564
MGM Grand Detroit LLC	23,640,083	12,551,330	36,191,413
Total	$ 492,998,818	$ 1,360,778,486	$ 1,853,777,304
Total City Taxable Valuation	$6,828,590,407	$ 1,507,199,386	$ 8,335,789,793
Ten Largest Taxpayers as a % of Total City Taxable Valuation	7.22%	90.29%	22.24%

SOURCE: Finance Department, Assessments Division.

(1) Includes Rehabilitation Districts.

Tax-Exempt Property

A significant amount of real property (such as government facilities, schools, churches and hospitals) located within the City is exempt from taxation. In addition to tax-exempt real property, much personal property is also exempt, including household property, licensed motor vehicles, manufacturing tools held for use, mechanic's tools, pollution control facilities, property stored while in transit and business inventory, as well as the property of publicly owned and tax-exempt private institutions. The only major items of personal property subject to property taxation in the City are commercial and industrial furniture, fixtures and equipment.

INDEBTEDNESS OF THE CITY AND RELATED ENTITIES

Capital Financing Policies

Unlimited Tax Bonds

In accordance with the State Constitution, unlimited tax general obligation bonds must be voter approved before issuance. General Fund departments have traditionally relied on unlimited tax general obligation bonds of the City for capital programs. In accordance with State law, the City is obligated to levy and collect taxes without regard to any constitutional, statutory or Charter tax rate limitations for payment of such obligations. The City has followed a policy of scheduling bond referenda to coincide with regularly scheduled elections. Since 1987, the City has issued and expects to continue to issue unlimited tax general obligation bonds annually as described in

"INDEBTEDNESS OF THE CITY AND RELATED ENTITIES–Prospective Indebtedness" below. The following table shows the City's authorized but unissued unlimited tax general obligation debt for capital programs as of May 1, 2005.

Table 21–Authorized but Unissued Debt
As of May 2, 2005

General Obligation (Unlimited Tax) Bonds	Date of Voter Approval	Remaining Authorization
Sewer Construction (1)	08/02/1960	$24,000,000
Public Safety	11/04/1997	625,000
Public Safety	11/07/2000	1,500,000
Public Safety	11/02/2004	120,000,000
Municipal Facilities	11/07/2000	5,120,000
Neighborhood/Economic Development	11/07/2000	4,105,000
Neighborhood/Economic Development	11/02/2004	19,000,000
Public Lighting	11/07/2000	7,935,000
Public Lighting	11/02/2004	22,000,000
Recreation, Zoo, and Cultural	11/07/2000	19,195,000
Recreation, Zoo, and Cultural	11/02/2004	22,000,000
Detroit Institute of Arts	11/07/2000	4,850,000
Detroit Historical Museum	11/06/2001	17,200,000
African American Museum	04/29/2003	500,000
Transportation	11/02/2004	32,000,000
		$300,030,000

SOURCE: Finance Department.

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(1) Not expected to be issued.

Limited Tax Bonds

The City may issue limited tax general obligation bonds or other obligations without the vote of the electors. However, taxes may not be levied in excess of constitutional, statutory or Charter limitations for the payment thereof. Such bonds are payable from general non-restricted moneys of the City. Certain of such limited tax obligations are secured with a first lien on specific revenues such as Distributable Aid. The City has utilized limited tax obligations to finance vehicle purchases, general capital improvements, deficit elimination and the City's Risk Management Fund. See "INDEBTEDNESS OF THE CITY AND RELATED ENTITIES – Tax Supported and Revenue Debt" below.

Revenue and Special Obligation Bonds

There are generally no voter approval requirements for the issuance of revenue bonds. The City issues revenue bonds to finance and refinance various capital projects for water and sewage and, through the City of Detroit Building Authority, parking. Additional revenue bonds may be issued for these systems provided certain specific additional bonds tests are met under applicable bond documents.

Other Capital Financing Sources

The City also receives State and federal funds which finance certain construction and capital projects. These include State Gas and Motor Vehicle Registration for street improvements, federal Community Development Block Grant revenues largely for continuing urban renewal projects and funds through the State and federal government for transportation purposes. In addition, the City periodically receives capital grants as a result of certain Tax Supported and Revenue Debt.

The following table sets forth the outstanding direct tax-supported and revenue indebtedness of the City.

Table 22–Statement of Direct Tax-Supported and Revenue Indebtedness

May 2, 2005

Tax Supported Debt:		
Unlimited Tax		
General Obligation Bonds (general purpose)	$ 543,095,000	
Distributable State Aid General Obligation Bonds	$ 36,755,000	$ 579,850,000
Limited Tax		
Self-Insurance Bonds	$ 161,180,000	
General Obligation Bonds (limited tax)	140,835,000	
Greater Detroit Resource Recovery Authority Bonds	183,000,000	
Detroit Building Authority Bonds (Madison Center)	9,967,338	
Economic Development Corporation (Resource Recovery)	63,980,000	558,962,338
Total tax supported debt		$1,138,812,338
Revenue and Other Debt:		
Water Supply System Bonds	$ 1,991,615,000	
Sewage Disposal System Bonds	2,748,774,306	
Detroit Building Authority Bonds (Parking & Arena System)	60,845,000	
Federal Section 108 Loans	20,006,000	
Convention Facility Revenue Bonds (Cobo Hall Expansion)	125,013,138	
DDA Tax Increment Bonds	166,473,198	
LDFA Tax Increment Bonds (Chrysler Project)	86,210,000	
Total revenue and other projects		5,198,936,642
Gross Direct Debt		$6,337,748,980
Deductions		
Revenue and Other Debt	$5,198,936,642	
Greater Detroit Resource Recovery Authority Bonds–Reserve Account Balance	26,249,817	
Total Deductions		5,225,186,459
Net Direct Debt		$1,112,562,521

SOURCE: Finance Department.

Overlapping Debt

Property in the City is currently taxed for a proportionate share of outstanding general obligation debt of overlapping governmental entities including the School District of the City of Detroit, Wayne County, Regional Educational Service Agency, Wayne County Community College and the Detroit-Wayne Joint Building Authority. The table below shows the City's share of outstanding tax-supported overlapping debt as of May 2, 2005. See "GOVERNMENTAL STRUCTURE – Other Governmental Entities."

Table 23–City's Share of Overlapping Debt
As of May 31, 2005

Issuer	Outstanding Debt	Detroit's Share Percent	Detroit's Share Amount
The School District of the City of Detroit	$1,466,816,577	100.00%	$1,466,816,577
Wayne County(1)	115,053,753	18.39%	21,158,385
Wayne County Community College	67,830,000	29.16%	19,779,228
Wayne Intermediate School District	-	18.14%	-
Net Overlapping Debt			$1,507,754,190

SOURCE: Municipal Advisory Council of Michigan.

(1) This debt is a general obligation of the County but is payable from assessments against municipalities in the County, other than the City, as well as from the County General Fund.

Summary of Debt Statement

The following table shows the City's net direct and overlapping debt as of May 2, 2005.

Table 24–Direct and Overlapping Debt
As of May 2, 2005

Direct debt:		
Gross principal amount	$6,337,748,980	
Less amount payable from other sources	5,198,936,642	
Net direct debt		$1,138,812,338
Overlapping debt:		
Net overlapping debt		1,507,754,190
Net direct and overlapping debt (1)		$2,646,566,528

SOURCE: Finance Department and Municipal Advisory Council of Michigan.

(1) This amount is larger than the corresponding amount presented in Table 22 because the amount shown here does not give credit for the debt service reserve account balance related to the Greater Detroit Resource Recovery Bonds.

Legal Debt Margin

Article VII, Section 21 of the State Constitution establishes the authority, subject to constitutional and statutory prohibitions, for municipalities to incur debt for public purposes. In accordance with the authority granted to the State Legislature, Act 279, Public Acts of Michigan, 1909, as amended ("Act 279" or the "Home Rule City Act") was enacted. Pursuant to the power conferred by Act 279, the electorate of the City adopted the City Charter. The City Charter provides that the City may borrow money for any purpose within the scope of its power, may issue bonds or other evidence of indebtedness therefor, and may, when permitted by law, pledge the full faith, credit and resources of the City for the payment of those obligations. Act 279 limits the debt a city may have outstanding at any time by providing that the net indebtedness incurred for all public purposes may not exceed the greater of 10% of the assessed value of all the real and personal property in the City or 15% of the assessed value of all the real and personal property in the City if that portion of the total amount of indebtedness incurred which exceeds 10% is or has been used solely for the construction or renovation of hospital facilities. The definition of assessed value for the debt limit computation under Act 279 includes certain assessed value equivalents not otherwise included in assessed valuation.

Pursuant to Act 279, significant exclusions to the debt limitations have been permitted for the following purposes: special assessment bonds and motor vehicle highway fund bonds, even though they are a general obligation of the City; revenue bonds payable from revenues only, whether or not secured by a mortgage; bonds, contract obligations or assessments incurred to comply with an order of the Water Resources Commission of the State or a court of competent jurisdiction; obligations incurred for water supply, sewage, drainage, refuse disposal or resource recovery projects necessary to protect the public health by abating pollution; bonds issued to acquire housing for which certain rent subsidies will be received by the City or an agency thereof; bonds issued to refund money advanced or paid for certain special assessments; and self-insurance bonds.

The maximum amount of general obligation debt (both unlimited tax and limited tax) the City may have outstanding at any time is limited by State law. The limit is set at 10% of the City's State Equalized Valuation (adjusted for certain assessed value equivalents) or 15% if that portion which exceeds 10% is used solely for construction or renovations of hospital facilities. However, certain general obligation debt (including the Greater Detroit Resource Recovery Authority and Self-Insurance Bonds debt) is excluded from this limit. The limit and the outstanding general obligation debt subject to the limit are shown in the following table:

Table 25–Legal Debt Margin Subject to State Limitation
As of May 2, 2005

Assessed Value Fiscal Year 2004-05 (State equalized)	$12,713,648,477	
Add: Allowance under Act 228, Mich. 1975	718,498,590	
Allowance under Act 198, Mich. 1974	361,731,928	
Allowance under Act 147, Mich. 1992	26,933,794	
Allowance under Act 376, Mich. 1996	86,672,803	
	$13,907,485,592	
General Purpose Limit (10% x $13,907,485,592)		$1,390,748,559
Less Outstanding Debt:		
General Obligation Bonds	$ 543,095,000	
Distributable State Aid Bonds	36,775,000	
Limited Tax Bonds	140,835,000	
Detroit Building Authority (District Court Madison Center Bonds)	9,967,338	730,672,338
General Debt Margin		$ 660,076,221
Additional Hospital Limit (5% x $13,907,485,592)		695,374,280
Total Legal Debt Margin (General and Hospital)		$1,355,450,501

SOURCE: Finance Department.

Table 26 - General Obligation Cumulative Principal Amortization
As of May 2, 2005

Fiscal Year Ending June 30,	Unlimited Tax GO		Limited Tax GO		Total GO Debt	
	Principal	Percent	Principal	Percent	Principal	Percent
2005	$ -	-	$ 45,385	0.01%	$ 45,385	-
2006	30,855,000	5.32%	90,469,790	16.19%	121,324,790	10.66%
2007	34,180,000	11.22%	94,907,163	33.17%	129,087,163	21.99%
2008	38,040,000	17.78%	99,870,000	51.04%	137,910,000	34.10%
2009	42,320,000	25.07%	135,330,000	75.25%	177,650,000	49.70%
2010	43,660,000	32.60%	27,170,000	80.11%	70,830,000	55.92%
2011	42,300,000	39.90%	28,365,000	85.19%	70,665,000	62.13%
2012	39,820,000	46.77%	29,640,000	90.49%	69,460,000	68.23%
2013	39,165,000	53.52%	31,050,000	96.04%	70,215,000	74.39%
2014	32,870,000	59.19%	13,925,000	98.53%	46,795,000	78.50%
2015	30,455,000	64.44%	980,000	98.71%	31,435,000	81.26%
2016	27,085,000	69.11%	1,040,000	98.90%	28,125,000	83.73%
2017	28,500,000	74.03%	1,100,000	99.09%	29,600,000	86.33%
2018	28,865,000	79.01%	1,165,000	99.30%	30,030,000	88.97%
2019	28,370,000	83.90%	1,230,000	99.52%	29,600,000	91.57%
2020	27,020,000	88.56%	1,300,000	99.75%	28,320,000	94.05%
2021	27,700,000	93.34%	1,375,000	100.00%	29,075,000	96.61%
2022	19,400,000	96.68%			19,400,000	98.31%
2023	11,570,000	98.68%			11,570,000	99.33%
2024	7,675,000	100.00%			7,675,000	100.00%
	$579,850,000		$558,962,338		$1,138,812,338	

SOURCE: Finance Department

Table 27–Total Outstanding Debt Service Requirement Schedule
As of May 2, 2005

Fiscal Year Ending June 30,	General Obligation Bonds: Unlimited Tax: Principal	Unlimited Tax: Interest	Unlimited Tax: Total	Limited Tax: Principal	Limited Tax: Interest	Limited Tax: Total	Revenue and Other Bonds[(1) (2)]: Principal	Interest	Total	Requirements G.O. (Unlimited), G.O. (Limited), Revenue and Other
2005	$ -	$ -	$ -	$ 45,385	$ 4,598	$ 49,983	$ -	$ -	$ -	$ 49,983
2006	30,855,000	29,669,382	60,524,382	90,469,790	27,198,973	117,668,764	106,645,000	226,054,280	332,699,280	510,892,425
2007	34,180,000	28,189,932	62,369,932	94,907,163	22,756,981	117,664,145	112,395,000	227,425,249	339,820,249	519,854,325
2008	38,040,000	26,464,827	64,504,827	99,870,000	17,797,050	117,667,050	111,199,128	223,674,231	334,873,359	517,045,236
2009	42,320,000	24,517,802	66,837,802	135,330,000	12,098,958	147,428,958	121,035,000	216,263,109	337,298,109	551,564,868
2010	43,660,000	22,350,424	66,010,424	27,170,000	6,520,871	33,690,871	126,717,471	211,388,469	338,105,939	437,807,234
2011	42,300,000	20,152,051	62,452,051	28,365,000	5,323,367	33,688,367	134,071,483	205,350,257	339,421,740	435,562,158
2012	39,820,000	18,077,226	57,897,226	29,640,000	4,048,431	33,688,431	128,361,694	198,822,462	327,184,156	418,769,812
2013	39,165,000	16,056,586	55,221,586	31,050,000	2,638,260	33,688,260	129,422,224	195,881,385	325,303,608	414,213,455
2014	32,870,000	14,017,250	46,887,250	13,925,000	1,120,306	15,045,306	131,840,242	189,847,524	321,687,766	383,620,322
2015	30,455,000	12,310,771	42,765,771	980,000	435,038	1,415,038	132,000,954	188,940,734	320,941,688	365,122,497
2016	27,085,000	10,719,624	37,804,624	1,040,000	376,963	1,416,963	136,524,826	184,395,882	320,920,708	360,142,295
2017	28,500,000	9,298,853	37,798,853	1,100,000	316,125	1,416,125	135,959,562	174,731,729	310,691,290	349,906,268
2018	28,865,000	7,807,595	36,672,595	1,165,000	252,422	1,417,422	141,094,293	169,033,023	310,127,316	348,217,333
2019	28,370,000	6,284,554	34,654,554	1,230,000	185,063	1,415,063	146,759,899	163,535,244	310,295,143	346,364,759
2020	27,020,000	4,831,529	31,851,529	1,300,000	113,906	1,413,906	151,141,533	157,518,964	308,660,498	341,925,933
2021	27,700,000	3,445,891	31,145,891	1,375,000	38,672	1,413,672	154,323,035	151,512,088	305,835,123	338,394,686
2022	19,400,000	2,047,191	21,447,191				148,035,788	145,670,152	293,705,941	315,153,132
2023	11,570,000	993,073	12,563,073				166,894,137	131,035,740	297,929,876	310,492,949
2024	7,675,000	397,835	8,072,835				163,030,495	123,586,155	286,616,650	294,689,485
2025							181,504,111	115,589,631	297,093,741	297,093,741
2026							173,854,770	107,418,366	281,273,135	281,273,135
2027							194,915,000	95,620,225	290,535,225	290,535,225
2028							207,325,000	86,230,526	293,555,526	293,555,526
2029							217,465,000	76,410,555	293,875,555	293,875,555
2030							222,240,000	66,589,692	288,829,692	288,829,692
2031							230,425,000	56,839,294	287,264,294	287,264,294
2032							239,630,000	46,905,279	286,535,279	286,535,279
2033							249,885,000	35,323,405	285,208,405	285,208,405
2034							260,920,000	25,789,615	286,709,615	286,709,615
2035							206,495,000	15,132,900	221,627,900	221,627,900
2036							216,820,000	5,176,986	221,996,986	221,996,986
	$579,850,000	$257,632,396	$837,482,396	$558,962,338	$101,225,983	$660,188,321	$5,178,930,642	$4,217,693,149	$9,396,623,791	$10,894,294,508

Note: Totals may not add up due to rounding. (1) Includes debt service for the Water and Sewerage Systems and for the Detroit Building Authority (Parking System), DDA, LDFA, Cobo Hall revenue debt. The totals do not reflect Section 108 loans. Includes SRF debt calculated at the amount approved and not at the actual amount borrowed. (2) The Water and Sewerage system revenue bond debt service is presented here on a basis consistent with that contained in the City's Annual CAFR, and is not attributable to the fiscal year in the manner required by the respective bond ordinances.

Table 28–Per Capita Debt and Debt Ratios

As of June 30,	Population Estimate[1]	Net Direct Debt (000)	Per Capital Net Direct Debt	Ratio to True Cash Value[2]	Net Direct and Overlapping Debt (000)	Per Capita Net and Overlapping Debt	Ratio to State Equalized Valuation[2]
2000	951,270	$1,021,005	$1,073	5.9%	$1,482,878	$1,559	17.2%
2001	933,827	$ 983,080	$1,033	5.0%	$1,591,378	$1,704	15.0%
2002	921,759	$ 962,133	$1,044	4.4%	$1,452,049	$1,575	14.3%
2003	911,402	$ 909,624	$ 998	3.8%	$2,717,111	$2,981	22.6%
2004	911,402	$1,104,034	$1,211	4.3%	$2,625,218	$2,880	21.8%

SOURCE: Finance Department.

(1) Population estimates are from the U.S. Department of Commerce, Bureau of Census, Current Population Reports.
(2) By law, State Equalized Valuation ("SEV") represents 50% of True Cash Value. True Cash Value used is based on the SEV set on December 31 of the fiscal year which determines property taxes levied in the following year, and is referred to as the following year's SEV. See "ASSESSED VALUATION AND PROPERTY TAXES."

Short-Term Indebtedness

Under the provisions of State law, a municipality, by resolution of its governing body and without a vote of its electors, but subject to the prior approval of the Department of Treasury or an exception therefrom, may borrow money and issue its notes in anticipation of the collection of the taxes and certain other revenues for its current fiscal year or its next succeeding fiscal year. In addition, a municipality, by resolution of its governing body and without a vote of its electors, may borrow money and issue its notes in anticipation of the receipt of payments under the provisions of the State Revenue Sharing Act for its current fiscal year or its next succeeding fiscal year. Tax anticipation notes and revenue sharing anticipation notes issued under this Act are limited tax general obligations of a municipality. The City did not issue short-term debt in fiscal years 2000 through 2004. In 2005 the City expects to issue $55 million of revenue sharing anticipation notes secured by Distributable Aid for cash flow purposes.

Prospective Indebtedness

Unlimited Tax Obligations. The City expects to issue $50 million of unlimited tax general obligation bonds in fiscal 2006. Additional unlimited tax general obligation bonds are expected to be issued in future years to finance a continuing capital improvement program. The City currently plans a bonding program averaging approximately $50 million annually. See "INDEBTEDNESS OF THE CITY AND RELATED ENTITIES–Capital Financing Policies" and "–Legal Debt Margin."

Limited Tax Obligations. The City expects to issue $87 million of limited tax general obligation capital improvement bonds to finance a portion of the costs of an 800 MHz radio communication system project and to refund prior limited tax general obligation bonds.

Revenue Obligations. The City intends to issue revenue bonds periodically to finance improvements to self-supporting systems, including its Water Supply System and its Sewage Disposal System.

EMPLOYEE BARGAINING UNITS

As of May 1, 2005, the City employed approximately 15,725 employees (including part-time and seasonal employees). Approximately 10% of these employees are non-union, and the remaining 90% are represented by one of the City's 48 bargaining units. The largest bargaining units are: The American Federation of State, County and Municipal Employees ("AFSCME"); the Detroit Police Officers Association ("DPOA"); the Detroit Fire Fighters Association ("DFFA"); the Teamsters; and the Amalgamated Transit Union ("ATU"). The City's current four-year agreement with AFSCME, its largest union, began July 1, 2001. Historically, the City's other non-uniform (*i.e.*, not police or fire) unions have followed the AFSCME contract, with only minor variations. The collective bargaining agreements for AFSCME and the other non-uniform unions and nearly all other City bargaining units will expire on June 30, 2005, and the City has begun opening negotiations toward successor contracts.

The City's most recent agreement with DPOA expired on June 30, 2004. As the parties did not reach a new agreement, the City and DPOA are in an Act 312 binding arbitration proceeding for a successor agreement. Meanwhile, they continue to operate in accordance with the expired DPOA agreement. (Act 312, Public Acts of Michigan, 1969, provides for compulsory arbitration of labor disputes in municipal police and fire departments when negotiations reach an impasse, since the options of a strike or lockout are forbidden with respect to such workers essential to public safety.)

Historically, the DFFA agreements provide for automatic parity of DFFA with DPOA with respect to wages and benefits. Accordingly, although there has been no effective DFFA agreement since June 30, 2001, DFFA members continue to receive the same wage and health care and pension benefits as in the DPOA agreement that expired June 30, 2004. The City and DFFA also are in an Act 312 mandatory binding arbitration proceeding for a successor agreement. The Lieutenants and Sergeants Association ("LSA") agreement expires June 30, 2006.

The City has no reason to believe that its outstanding labor negotiations will result in any interruption of service from the unionized work force.

RETIREMENT SYSTEMS

The City has two retirement systems. The General Retirement System covers all employees other than policemen and firemen, who are covered by the Police and Fire Retirement System. Each system has a separate board of trustees that administers the respective Pension Fund. The City annually charges its pension contributions to expense. Each system provides for allowances consisting of City-financed pensions and employee-financed annuities. The State Constitution requires that accrued financial benefits of the City's retirement systems be contractual obligations, which cannot be diminished or impaired by the action of its officials or governing body. It also requires that benefits arising on account of service rendered in a given year are to be funded during that year and that such funding shall not be used for financing unfunded accrued liabilities.

The most recent annual actuarial reports available for the Retirement Systems are as of June 30, 2004. As of June 30, 2004, the two Systems had combined total net assets held for benefits of approximately $5,544,760,059 and covered 16,851 active employees and 19,639 retirees and their beneficiaries. According to the actuarial study of Gabriel, Roeder, Smith and Company ("Actuary") for fiscal year 2004, the GRS was 73.0% funded and the PFRS was 79.7% funded.

Actuarial studies are done annually by the Actuary, and the City Charter provides that the assumptions used to value the liabilities of both Systems are to be studied in depth every five years. Actuarial assumptions were revised following the 1997-2002 in-depth experience study. Both Systems use the entry age normal actuarial cost methodology to determine age and service liabilities, vested liabilities, casualty liabilities and normal cost. As of the June 30, 2004 actuarial reports, the following significant assumptions are utilized in calculating the present value of vested benefits and the actuarially determined prior service cost: (1) the future

investment return rate is assumed to be 7.9% per annum for the GRS and 7.8% per annum for the PFRS; (2) the GRS assumes that total active member payroll expense will increase 4% annually, while the PFRS assumes that payroll expense will increase 4.8% annually; and (3) the GRS unfunded accrued actuarial liabilities ("UAALs") are amortized over a period of 20 years and the PFRS UAALs are amortized over a closed period, with 13 years remaining as of June 30, 2004.

On May 4, 2005, the GRS Board adopted a resolution that implemented a 20-year amortization period for funding GRS UAALs. The proposed final GRS actuarial report reflects this recent determination. Prior to this resolution the stated GRS policy for funding UAALs of that System had four distinct categories of UAAL with somewhat differing amortization periods for each, and the Board has not yet determined how it will apply its new amortization period determination to these categories. The current stated PFRS Retirement Board policy is to amortize UAALs of that System over a closed period with 13 years remaining as of June 30, 2004. Both Systems amortize their respective UAALs to produce contribution amounts (principal and interest) which are a level percentage of payroll contributions. On May 16, 2005, the Wayne County Circuit Court granted summary disposition in the City's favor in a lawsuit with the PFRS Board over the appropriate amortization period for funding PFRS UAALs. *See* "Recent Pension Litigation" below and "LITIGATION" in the Offering Circular which precedes this Appendix.

The mortality table for both Systems is 90% of the 1983 Group Annuity Mortality Table (adopted June 30, 1998 for the PFRS, and June 30, 2003 for the GRS), and the probabilities of retirement and separation from service (including death in service and disability) were revised (based on the 1997-2002 in-depth experience study) for the June 30, 2003 valuations for both Systems. Valuation assets recognize investment returns above or below the actuarial assumed rate over a three-year period.

The following table sets forth the contributions of the City to the General Retirement System and the Police and Fire Retirement System for fiscal year 2000 through fiscal year 2004.

Table 29 -- Contributions to Retirement Systems

	For the Fiscal Year Ended June 30,				
	2000	**2001**	**2002**	**2003**	**2004**
General Retirement System:					
Number of Active Employees	12,147	12,744	12,639	12,833	11,791
Number of Retirees and Beneficiaries	14,480	11,450	11,363	11,322	11,311
Number of Deferred Vested Beneficiaries	1,472	1,635	1,439	1,424	1,442
Percentage of Payroll for Normal Cost	9.2%	9.2%	9.2%/8.7%[D]	8.8%	9.0%
Percentage of Payroll for UAAL Amortization Amount	4.15%	5.1%	9.8%/9.3%[D]	13.9%	14.2%[B]
Total Percentage of Payroll	13.4%	14.3%	19.1%/18.1%[D]	22.7%	23.2%
City Contributions	$66,681,049	$68,139,535	$67,791,488	$72,859,246	$95,876,076[A]
Police and Fire Retirement System:					
Number of Active Employees	5,481	5,585	5,382	5,257	5,060
Number of Retirees and Beneficiaries	8,079	8,166	8,179	8,277	8,328
Number of Deferred Vested Beneficiaries	40	41	35	35	32
Percentage of Payroll for Normal Cost	26%/27.3%[D]	27.2%	27.7%/23.4%[D]	24.8%	24.8%
Percentage of Payroll for UAAL Amortization Amount	(26%)/(20.6%)[D]	(14.2%)	(3.9%)/(0.1%)[D]	19.1%	29.6%[C]
Total Percentage of Payroll[E]	0%/6.7%[D]	13.0%	23.8%/23.3%[D]	43.9%	54.4%
City Contributions	$19,972,058	$14,443,382	$8,449,645	$66,843,029	$69,475,202[A]

[A] At June 30, 2004, $7,651,462 and $69,475,202 of the annual required contributions noted above were not yet received by the GRS and PFRS, respectively. Contribution receivables in the same amount have been recorded.

[B] Determined using the newly adopted 20-year amortization period as of June 30, 2004.

[C] Amounts determined using a closed amortization period with 13 years remaining as of June 30, 2004.

[D] Due to a change in actuarial assumptions during the year, the first and second numbers represent the contribution rates under the prior assumptions and the new assumptions, respectively.

[E] The PFRS Board claims that the City's contribution amount does not include the full funding credit offset, and so the Board claims that the City's contribution percentage is to be based on the normal cost calculations for 2000-02. This matter is currently being litigated. See "*Recent Pension Litigation*" below.

SOURCES: Derived by Finance Department from annual actuarial reports (including the proposed final, but not yet adopted, actuarial report for the GRS for the fiscal year ended June 30, 2004).

The present value of unfunded actuarial accrued liabilities based upon actuarial valuations by the City's consulting actuary, is as follows:

Table 30 -- Unfunded Actuarial Accrued Pension Liabilities

	Valuation Date June 30,	Accrued Actuarial Liabilities (Millions)	Available for Benefits (Millions)	Assets as a Percent of Accrued Actuarial Liabilities
General Retirement System	2000	$3,077.0	$2,902.4	94.3%
	2001	$3,179.6	$2,912.1	91.6%
	2002	$3,276.6	$2,761.2	84.3%
	2003	$3,270.6	$2,537.7	77.6%
	2004	$3,383.9	$2,470.2	73.0%
Police and Fire Retirement System	2000	$3,342.1	$3,964.2	118.6%
	2001	$3,463.2	$3,900.0	112.6%
	2002	$3,523.4	$3,635.1	103.2%
	2003	$3,721.6	$3,205.5	86.1%
	2004	$3,857.5	$3,074.5	79.7%

SOURCE: Derived by Finance Department from annual actuarial reports (except that the proposed, but not yet adopted, final actuarial report for the General Retirement System for the fiscal year ended June 30, 2004, was used).

Recent Pension Litigation

In a lawsuit filed in July 2003 by the PFRS Retirement Board against the City, the Wayne County (Michigan) Circuit Court ruled in December 2003 that the City should contribute an additional $35 million into the PFRS for the fiscal year ended June 30, 2003, plus more than one year's interest thereon at 7.8% per annum (totaling approximately $37.75 million) . The City has filed a pending appeal from that decision with the Michigan Court of Appeals, but has meanwhile paid the disputed amount to the PFRS pursuant to a written agreement with the Retirement Board that if the decision is ultimately reversed on appeal, the payment will be refunded to the City with interest at the actuarially determined rate.

In a second similar lawsuit filed in July 2004 by the PFRS Retirement Board seeking approximately $10 million in additional contributions from the City for the fiscal year ended June 30, 2004, the Wayne County Circuit Court ruled in December 2004 in favor of the PFRS Retirement Board, based in part on the *collateral estoppel* effect of its prior decision. The City has also filed a pending appeal from that decision, and the appeals in both cases have been consolidated for hearing by the Michigan Court of Appeals. At issue in each case is whether the amount the City is obligated to contribute to the PFRS is the amount determined by the actuary or the amount set by the PFRS Retirement Board based on that actuarial determination.

On May 16, 2005, the Wayne County Circuit Court granted the City's motion for summary disposition, closing a lawsuit filed against the City by the PFRS Retirement Board in June 2004. The PFRS Retirement Board had sought a declaratory judgment that it could require a shorter amortization period for UAALs than the City claimed is permitted by Michigan statute and the pension provisions of the Detroit City Charter and Code. The effect of the Court's decision is to require the City's contribution obligation to be determined using a 20-year amortization period, substantially longer than the amortization period imposed by the Board, resulting in a lower required annual contribution amount from the City than if the Board had prevailed. The period during which the Board may file an appeal has not yet expired, and no appeal was filed before the date of this Offering Circular. See "LITIGATION" in the Offering Circular.

The City is seeking to enforce two Act 312 arbitration awards it won against the DPOA and LSA requiring that management and unions be equally represented on the Board of the PFRS. Currently, the union members are in the majority. The lawsuit was filed in Wayne County Circuit Court in October 2003 seeking to

have the award enforced against the other two uniformed unions. The City initially prevailed, but the Judge reversed himself and the matter is currently on appeal.

CERTAIN ECONOMIC AND DEMOGRAPHIC INFORMATION

General

The City of Detroit is located in Southeastern Michigan and is the nation's tenth largest city. It is the central city of a metropolitan area that has a population of over four million people. Detroit is the largest city in Michigan and comprises almost one-half of Wayne County's population. Established in 1701 and incorporated in 1815, Detroit encompasses an area of 138 square miles. Like other older, major cities in the Northeast, Detroit has experienced a significant decline in population since 1950, and an erosion of its economic base. Since the mid-1970s, the City, as well as private interests, have made substantial investments which have led to additional economic diversification and development during the last several years. The City is a major manufacturing center for the United States, and a regional center of finance, commerce and tourism. The City is located in a regional economy that, although diversifying, remains susceptible to swings in the national economy due to its concentration of employment in the durable goods industries, particularly the automobile industry.

Economically, Detroit relates primarily to the Tri-County area of Wayne, Oakland and Macomb counties. Officially, however, it is a part of a Primary Metropolitan Statistical Area (the "Detroit PMSA") that includes the Tri-County area, plus Monroe, Livingston, Lapeer and St. Clair counties.

Population

The City's population count (established by U.S. Census) determines its legislative apportionment in Congress and in the State Legislature, and has a direct impact on Federal and State programs allocated in whole or in part on a *per capita* basis. While population growth in the Detroit PMSA significantly outpaced the national rate in the 1950s, the region's total population expanded more slowly in the 1960s and contracted (reflecting a significant net out-migration) in the 1970s and 1980s. Net population losses in the region were primarily concentrated in the City. The remainder of the Detroit PMSA continued to experience population growth throughout the 1970s and 1980s. Originally consisting of the Tri-County Area, the region considered the metropolitan area was expanded geographically for U.S. statistical purposes, as population and industry dispersed, to add Lapeer, Livingston and St. Clair counties in 1973 and Monroe County in 1983.

Between 1950 and 2000, the City experienced substantial changes in the characteristics of its population, with differing migration patterns resulting in a net decline of 49% of its total population during the fifty-year period. Detroit's share of total State and metropolitan area population fell significantly.

Table 31–Population Trends, 1950-2000

	City of Detroit		Wayne County		Detroit PMSA[1]		U.S.
Year	Population	% Change	Population	% Change	Population	% Change	% Change
1950	1,849,568	-	2,435,235	-	3,169,649	-	-
1960	1,670,144	-9.70%	2,666,297	9.49%	4,050,840	27.80%	18.50%
1970	1,511,482	-9.50%	2,666,751	0.02%	4,549,869	12.32%	13.40%
1980	1,203,339	-20.39%	2,337,891	-12.33%	4,488,072	-1.36%	11.40%
1990	1,027,974	-14.57%	2,111,687	-9.68%	4,382,299	-2.36%	10.20%
2000	951,270	-7.46%	2,061,162	-2.39%	4,441,551	1.35%	13.20%

SOURCE: U.S. Department of Commerce, Bureau of the Census.

(1) Consists of Lapeer, Livingston, Macomb, Monroe, Oakland, St. Clair and Wayne counties in Michigan.

Table 32–Distribution of Population by Age, 2000

Age in Years	Population	% of Total
Under 5	76,232	8.0%
5 to 9	93,882	9.9
10 to 14	83,361	8.8
15 to 19	68,707	7.2
20 to 24	65,654	6.9
25 to 34	144,323	15.2
35 to 44	136,695	14.4
45 to 54	115,971	12.2
55 to 59	38,045	4.0
60 to 64	29,344	3.1
65 to 74	52,863	5.6
75 to 84	35,213	3.7
85 years and over	10,980	1.2
Total	951,270	100.0%

SOURCE: U.S. Department of Commerce, Bureau of the Census.

Table 33–Households by Type, 1970-2000

	1970		1980		1990		2000	
	Number of Households	% of Total	Number of Households	% of Total	Number of Households	% of Total	Number of Households	% of Total
	(number of households in thousands)							
Family households	370.0	74.3	289.3	66.7%	244.3	65.3%	218.5	64.9
Married-couple	286.8	%	173.2	40.0	109.8	29.4	89.7	%
households	16.4	57.6	18.4	4.2	21.2	5.7	22.4	26.7
With single male head	66.8	3.3	97.7	22.5	113.2	30.3	106.4	6.6
With single female		13.4						31.6
head								
Non-family households	127.8	25.7	144.2	33.3	129.7	34.7	117.9	35.1
Householder living	N.A.	N.A.	125.3	28.9	111.3	29.8	99.9	29.7
alone	497.8	100%	433.5	100%	374.1	100%	336.4	100%
Total households								

SOURCE: U.S. Department of Commerce, Bureau of the Census.

N.A. = Not Available. Family households consist of two or more related persons. Data may not add up to totals due to rounding.

Employment and Economic Base

The economy of the City is influenced by trends in the durable goods industry and in particular the domestic automobile industry. Over the past two decades, all three major automotive companies have, at times, experienced financial problems adversely affecting the economy of the Detroit area. General Motors and DaimlerChrysler represent over 12% of the City's State Equalized Valuation and are major employers in the City. Among the complex factors affecting the automotive industry are: national consumer spending patterns (related, among other things, to consumer confidence, disposable income, credit availability and

interest rates); the value of the U.S. dollar relative to foreign currencies; foreign trade restrictions; federal and state regulatory policies with respect to auto imports, safety, fuel efficiency and pollution emissions; the availability and price of gasoline; and organizational demand for fleet or specialized vehicles.

The following table sets forth certain information on total employment by industry group for the Detroit PMSA and the U.S. The region has in the past consistently maintained a greater percentage of persons employed in the manufacturing sector of the economy than the nation as a whole, which reflected the area's dependence on the automotive industry. The high percentage, however, has shown a decline in recent years such that the PMSA employment breakdown now is more similar to national statistics.

Table 34–Annual Average Wage and Salary Employment by Place of Work (Non-Agricultural)

	Detroit PMSA							
	1980		1990		2000		2003	
	(000)	%	(000)	%	(000)	%	(000)	%
Industry Group:								
Manufacturing	$ 491	29.3	$ 444	22.9	$ 458	20.7	$ 321	15.6
Wholesale and retail trade	364	21.7	474	24.4	508	23.0	322	15.6
Services	346	20.7	521	26.9	701	31.7	873	42.4
Transportation, public utilities	81	4.8	89	4.6	98	4.4	105	5.1
Finance, insurance, real estate	89	5.3	113	5.8	112	5.1	118	5.7
Construction	52	3.1	63	3.2	93	4.2	84	4.1
Mining	1	0.1	1	0.1	1	-	-	-
Government	251	15.0	235	12.1	237	10.7	237	11.5
Totals	$ 1,675	100.0	$ 1,940	100.0	$ 2,208	100.0	$ 2,060	100.0

	U.S.							
	1980		1990		2000		2003	
	(000)	%	(000)	%	(000)	%	(000)	%
Industry Group:								
Manufacturing	$20,285	22.4	$19,062	17.3	$ 18,437	14.0	$ 14,524	11.2
Wholesale and retail trade	20,310	22.5	26,149	23.7	30,198	23.0	20,435	15.7
Services	17,890	19.8	28,209	25.6	40,388	30.7	53,289	41.0
Transportation, public utilities	5,146	5.7	5,839	5.3	6,993	5.3	4,763	3.7
Finance, insurance, real estate	5,160	5.7	6,832	6.2	7,618	5.8	7,974	6.1
Construction	4,346	4.8	5,204	4.7	6,688	5.1	6,722	5.2
Mining	1,027	1.1	735	0.7	538	0.4	571	0.4
Government	16,241	18.0	18,291	16.6	20,576	15.7	21,576	16.6
Totals	$90,405	100.0	$110,321	100.0	$131,427	100.0	$129,854	100.0

SOURCE: Michigan Employment Security Agency for Detroit PMSA; U.S. Bureau of Labor Statistics, Employment and Earnings, for U.S.

Totals may not add due to rounding.

The following table shows the annual average unemployment rates for the City, the Detroit-Warren-Livonia CBSA, and the U.S. in recent years.

Table 35–Civilian Unemployment Rates, 2001 to 2005

	City of Detroit	Detroit-Warren-Livonia CBSA	U.S.
2001	9.8%	5.1%	4.8%
2002	11.9%	6.2%	5.8%
2003	14.6%	7.3%	6.0%
2004	14.0%	7.0%	5.6%
2005	14.8%	8.0%	5.3%

SOURCE: Michigan Department of Labor & Economic Growth; U.S. Department of Labor, Bureau of Labor Statistics. For 2005, derived from monthly average through March (not seasonally adjusted).

The following table shows a breakdown of manufacturing wage and salary employment by type for the Detroit-Warren-Livonia MSA for calendar years 2000 through 2004.

Table 36 – Manufacturing Wage and Salary Employment

Industry Group:	2000	2001	2002	2003	2004
			(In Thousands)		
Durable goods industries	333.7	305.1	280.8	262.6	253.0
Nondurable goods industries	54.5	50.8	48.6	46.8	44.7
Total manufacturing employment	388.2	355.9	329.4	309.4	297.7

SOURCE: Michigan Department of Labor & Economic Growth, Office of Labor Market Information.

Construction

The following data shows trends in construction permits in the City.

Table 37–Trends in Construction Permits, 2000 to 2004

	Value (in millions)			
	New Construction		Alterations/Additions	
	Residential	Non-Residential	Residential	Non-Residential
2000	$ 29.8	$ 475.4	$ 72.8	$ 458.6
2001	$ 34.3	$ 336.6	$ 75.7	$ 662.0
2002	$ 10.6	$ 385.8	$ 42.9	$ 372.3
2003	$ 55.2	$ 339.8	$ 79.0	$ 610.7
2004	$ 71.0	$ 280.1	$ 124.0	$ 330.8

SOURCE: City of Detroit Department of Buildings and Safety Engineering.

NOTE: Residential includes single and multiple family dwellings.

Housing Characteristics

Trends in the housing stock of the City have a direct impact on the City's collection of *ad valorem* property taxes, because residential real property accounts for more than two-thirds of the valuation of all real property in the City (see "ASSESSED VALUATION AND PROPERTY TAXES–Valuation by Type of Property" above).

The number of housing units in the City fell 29% between 1970 and 2000. Net losses have been concentrated in owner-occupied units, 16% of which were lost to the housing market in the 1970s, 21% of which were lost in the 1980s and 7% lost in the 1990s. Owner occupancy rates in the City declined from 60.0% in 1970 to 49% in 2000. Since 1990, the City has experienced a significant increase in the construction of new housing units. See "CERTAIN ECONOMIC AND DEMOGRAPHIC INFORMATION – Major Projects and Developments." Trends in the housing stock of the City have a direct impact on the City's collection of ***ad valorem*** property taxes, because residential real property accounts for more than two-thirds of the valuation of all real property in the City (see "ASSESSED VALUATION AND PROPERTY TAXES – Valuation by Type of Property" above).

Table 38–Housing Inventory, 1970 to 2000

Occupancy Status	1970	1980	1990	2000
		(in thousands)		
Owner-occupied	298.6	250.9	197.9	184.6
Renter-occupied	199.1	182.6	176.1	151.8
Vacant	31.3	37.7	36.0	38.7
Total housing units	529.0	471.2	410.0	375.1

SOURCE: U.S. Department of Commerce, Bureau of the Census.

Note: Data may not add up due to independent recording. Excludes seasonal housing.

Table 39–Housing Characteristics, 2000

	City of Detroit	Wayne County	Detroit PMSA	United States
Percent owner-occupied	54.9%	66.6%	72.4%	66.2%
Rental vacancy	8.3%	7.2%	6.4%	6.8%
Median value of owner-occupied units	$ 63,600	$ 96,200	$ 127,800	$ 119,600
Median contract rent	$ 486	$ 428	$ 502	$ 602
Persons per household	2.77	2.64	2.58	2.59

SOURCE: U.S. Department of Commerce, Bureau of Census.

Note: Value of Owner-Occupied Units is a self-reported estimate of the then-current market value, and therefore is not directly comparable to the State Equalized Value.

Largest Employers

Below is a listing of the largest private sector employers by company and by number of employees actually or estimated to be employed within the City at the end of calendar year 2003. The City and the School District are each major Detroit employers, employing approximately 18,155 and 26,000, respectively, as of June 30, 2004.

Table 40–Largest Private Employers

Company	Detroit Employment
Detroit Medical Center	11,627
DaimlerChrysler AG	10,172
Henry Ford Health System	6,261
General Motors Corporation	6,226
St. John Health System	5,941
American Axle & Manufacturing Holdings Inc.	4,600
DTE Energy Co.	4,006
Compuware Corp	4,000
Blue Cross and Blue Shield of Michigan	2,864
Motor City Casino	2,800

SOURCE: Crain's *Book of Lists, 2005 Edition*, December 2004.

Port of Detroit

The Detroit/Wayne County Port Authority ("DWCPA")is a public agency responsible for promoting trade and freight transportation through the Port of Detroit (the "Port"), which provides direct water service to world markets via the Great Lakes/St. Lawrence Seaway. The Port has five privately-owned and operated full-service terminals, a liquid bulk terminal and bulk facility, and a single dock facility with capacity for 14 ocean-going vessels. In addition, more than 30 industries located on the Detroit and Rouge Rivers have their own port facilities. A variety of ship repair services are available. The Detroit area, which is the largest foreign trade zone in the United States, provides financial advantages related to federal taxes and customs duties at subzones throughout the City and region. The Port is a principal port of entry for trade with Canada via bridge, vehicular tunnel, rail tunnel and barge service. Steel and scrap steel are the principal export products of the Port, handled for the three local steel mills. General cargo constitutes a minor portion of total tonnage due to the lack of regularly scheduled shipping service. See "CERTAIN ECONOMIC AND DEMOGRAPHIC INFORMATION - Major Projects and Developments."

Table 41–Waterborne Commerce of the Port of Detroit (millions of short tons of 2,000 pounds)

FISCAL YEARS	Foreign			Domestic	Grand
	Canadian	Overseas	Total	Total	Total
1991	1.5	0.9	2.4	11.9	14.3
1992	2.0	1.4	3.4	13.0	16.4
1993	2.4	0.9	3.3	13.9	17.2
1994	4.5	1.5	6.0	12.7	18.7
1995	2.6	1.0	3.7	15.2	18.9
1996	4.6	1.7	6.3	12.3	18.6
1997	4.8	1.3	6.1	12.0	18.1
1998	5.0	1.9	6.9	12.5	19.4
1999	3.5	1.1	4.6	12.3	16.9
2000	4.1	1.1	5.2	12.0	17.2
2001	4.3	0.4	4.7	12.3	17.0
2002	3.7	0.7	4.4	12.9	17.3
2003	3.5	0.4	3.9	10.4	14.3

SOURCE: Detroit/Wayne County Port Authority.

Transportation Network

Five major rail lines provide direct service to the Detroit area by such railroad companies as Conrail, Norfolk Southern, Grand Trunk Western, Canadian Pacific and CSX Transportation. Major cargoes handled by the rail lines in the Detroit area include automobiles, auto parts, steel, chemicals and food products.

Air transportation service is provided to the City at the Detroit City Airport, with general aviation, cargo and scheduled passenger services, and at the Detroit Metropolitan Wayne County Airport, the nation's 10th largest international airport and the largest hub for Northwest Airlines. More than 30 other scheduled airlines provided domestic and international service with more than 1 million annual passenger enplanements and 137,000 tons of annual enplaned cargo.

This area's extensive toll-free highway system, which includes the I-94, I-75, I-96 and I-696 interstate highways and Canadian 401, provides one-day access, based on a 500-mile day, to 48% (by population) of the U.S. market and to the Province of Ontario, Canada.

Major Projects and Developments

A number of major developments have been completed during the past three years, and others are in various stages of construction in the City. Most of the projects represent joint efforts between the public and private sector. Below are brief descriptions of the major developments, including announced financing sources.

Campus Martius Development

A $1 billion development located on a 9.2-acre site in downtown Detroit has been completed. The development includes the corporate offices of Compuware, retail space and 2,700 parking spaces. Nearby is the $20 million Campus Martius Park, about the size of 1-½ football fields and includes an outdoor-refrigerated skating rink, outdoor eating areas, portable stages, waterfalls and a year-round café.

Merchants Row

Merchants Row, a $30 million redevelopment project of eight 1910 era buildings adjacent to Compuware, includes 163 loft condominiums, a 264-space parking garage and 28,400 square feet of retail and restaurant space.

1001 Woodward

This 26-story, twin office tower, adjacent to the Campus Martius project, is undergoing a $20 million renovation, along with the addition of a $10 million 500-space parking structure.

Ford Center for the Fine and Performing Arts

The second phase of an $80 million restoration and expansion of Orchestra Hall was completed in spring 2004. The third phase of the development adds a high school for the fine, performing and broadcast arts completed in winter 2005.

GM Global Headquarters

General Motors completed a $100 million hotel renovation to its global headquarters including the addition of 100 square feet of meeting space, and improvements to the main entrance of the facility. A riverside promenade is currently under construction.

Downtown YMCA

Construction continues on a $38 million 5-story YMCA recreational facility located in the City's downtown area. The new facility will house an auditorium, a swimming pool, health and fitness center, wellness center, parking garage and a childcare center. Completion is expected in late 2005.

Woodward Millennium

A $37 million mixed-use development is being constructed in the medical center area. Construction is expected to be completed in summer 2005. The development will include 180 units of loft–style condominiums and garden-style apartments, a parking garage and retail space.

St. Anne's Gate

This new housing development is being built in southwest Detroit near the Ambassador Bridge and consists of new single and multi-family homes. The total project cost is expected to be $41 million.

Tri-Centennial Village

A $19 million housing development is being constructed on Detroit's west side. The development will include 165 single-family homes, 85 of which will be constructed by Habitat for Humanity.

Woodward Place at Brush Park

Woodward Place at Brush Park – Phase 1 construction of 100 town homes, is complete. Construction will continue over the next three years ultimately adding up to 700 new housing units to Brush Park. The condominiums average 1,800 square foot. The project also involves the renovation of several historic homes for residential use. The total cost of the project is $75 million.

Brush Park Manor

A 91,000 square foot senior apartment residence on 3.3 acres of land on Brush Street was recently completed. The 3-story complex consists of 113 apartments. The estimated cost of the project is $9.9 million.

Greyhaven Shorepoint Village

Greyhaven Marina Village is being constructed in phases on a 15-acre site on the Detroit River. Phase one consisted of 190 apartments and town homes overlooking the Detroit River. Phase two consists of 144 condominium units. The total cost of the development was $21 million. A third phase under development is the $25 million Shorepoint Village consisting of 57 single-family homes.

Woodbridge Estates

The $98 million project includes 247 rental units, 101 new homes, town homes and duplex condominiums and 297 enhanced service units on a former public site. In addition, the project will include retail space and a community center. The project is being funded with both public and private funds.

Lawndale Station

A $15.8 million mixed-use development in southwest Detroit is being completed in phases. The first phase of construction, which included 54 apartment units and 14,000 square feet of commercial space, was completed in January 2004. The second phase of construction will include 34 additional apartment units and approximately 6,500 square feet of commercial space.

Federal Reserve Bank

The 79.5 million reserve branch 220,000 square foot Detroit branch northeast of downtown is expected to employ 275 workers handling check clearing, currency processing, economic analysis and conferences and serves Michigan's Lower Peninsula. Its state- of-the-art design and equipment will allow its operations to be to be among the most efficient in the Federal Reserve System and is scheduled for completion in September 2005.

New Center Lofts

This $14.28 million residential project includes 102 loft-style, 2-story townhouses located in northwest Detroit. Later phases will include 3-story townhouses.

American Axle

American Axle is completing a second building phase in it $30 million research and training center complex next to its headquarters. The complex is to open in stages, beginning in 2006.

Morningside Commons

Located on the City's east side, this $30 million housing development is being constructed in phases. The first phase of the development consisted of 40 new single-family homes. The second phase consisted of a 64-unit multi-family townhouse development. Currently under construction, phase three will consist of the construction of 50 new single-family homes and the rehabilitation of 10 existing single-family homes.

Lombardo Heritage

A $197.7 million dollar housing complex is being constructed in phases on a 10.5 acre parcel on the City's east side. Once complete, the complex will include 126 condominium homes with basements.

Palmer Street Redevelopment

Located near the Wayne State University district, this $10 million project consists of the rehabilitation of 9 existing buildings along with the construction of new townhouses into a total of 115 housing units.

The PricewaterhouseCoopers Building

The accounting firm PricewaterhouseCoopers is constructing an 115,000 square foot, five-story office building adjacent to the Ford Field at a cost estimated at $26 million. PricewaterhouseCoopers will occupy the first four floors of the building with the fifth floor being available for lease to a future tenant. A 1,200-stall parking garage will be constructed immediately north of the building on an adjacent parcel of land.

St. John Detroit Riverview Hospital

Groundbreaking has occurred for a $12 million 62,300 sq. ft medical office building on the eastside campus for completion by May 2006. The building will house physicians and outpatient services.

The Salvation Army Southeast Adult Rehabilitation Center

The Salvation Army Southeast Adult Rehabilitation Center in downtown Detroit has begun a $26 million renovation. The 200-bed facility will add 100 beds, renovate offices, add a dining room and move its thrift store.

Detroit-Wayne County Port Authority

The Detroit/Wayne County Port Authority (DWCPA) financed a $43 million mixed-use facility on the east riverfront in downtown Detroit scheduled for completion in September 2006. The project consists of 18,000 square feet of ground floor retail space and upper floors and a parking garage with 1,174 parking spaces.

The DWCPA will be constructing a $11.25 million state-of-the-art Public Dock and Terminal west of the Renaissance Center that will further establish Detroit's Riverfront as a tourist destination. Great Lakes cruise ships, dinner cruisers, tour boats, tall ships and other vessels will be able to dock at the facility, which also includes a new headquarters for the DWCPA. To fund the project, the DWCPA received $7.5 million in federal and state grants under the Transportation Equity Act for the 21st Century; $3 million from the State's Clean Michigan Initiative, Water Redevelopment Grant and $750,000 from the City. The project is scheduled to be completed in July 2005. See "CERTAIN ECONOMIC AND DEMOGRAPHIC INFORMATION - Port of Detroit."

Kennedy Square Office Building

This $54 million project is being built on top of an existing underground garage in the downtown area. Expected to be completed in June 2006, the 10-story 240,000-sq. ft. office building will offer ground floor retail space and house up to 1,300 workers.

Casino Development

A recent court settlement has paved the way for the construction of three permanent casinos in the City of Detroit. Each casino will expand in or near its current temporary location at a cost of about $200 million each. Each casino will have a minimum of 100,000 sq. ft. of gaming space, a 400-room hotel and additional parking and restaurants. See "FINANCIAL OPERATIONS - General Fund Revenue Categories."

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INDEPENDENT AUDITORS' REPORT

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KPMG
KPMG LLP
Suite 1200
150 West Jefferson
Detroit, MI 48226-4429

Independent Auditors' Report

To the Honorable Mayor Kwame Kilpatrick
and Members of the City Council
City of Detroit:

We have audited the accompanying basic financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Detroit, Michigan (the City) as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the School District of the City of Detroit, the Downtown Development Authority, the Economic Development Corporation, the Museum of African American History, the Detroit Transportation Corporation, the Detroit Housing Commission, and the Greater Detroit Resource Recovery Authority, which represent 97.9% and 96.5%, respectively, of the assets and revenues of the discretely presented component units. We also did not audit the financial statements of the Retirement Systems, which represent 93.1% and 36.8%, respectively, of the assets and expenses/expenditures/deductions of the aggregate remaining fund information. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for the aggregate discretely presented component units and the aggregate remaining fund information, are based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

As described in note 3(B)1(c), the financial statements of the Detroit Housing Commission Component Unit did not include a liability to the Department of Housing and Urban Development in the amount of $14,236,946 related to unallowable costs claimed for federal reimbursement. Accounting principles generally accepted in the United States of America require that all liabilities that are probable and can be estimated should be recorded as liabilities, which would increase expenses and decrease net assets.

KPMG

In our opinion, based on our audit and the reports of other auditors, except for the effects of not recording the liability of the Detroit Housing Commission Component Unit as described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the aggregate discretely presented component units for the City of Detroit, Michigan as of June 30, 2004, and the changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In addition, in our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Detroit, Michigan as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof and budgetary comparison for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in note 1(C), the City changed the reporting of the Detroit Housing Commission from a proprietary fund to a discretely presented component unit as of July 1, 2003.

The City has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America have determined is necessary to supplement, although not required to be part of, the basic financial statements.

The schedules of employer contributions and the schedules of funding progress on page 82 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 21, 2005 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

KPMG LLP

Detroit, Michigan
March 21, 2005

BASIC FINANCIAL STATEMENTS (BFS)

City of Detroit, Michigan
STATEMENT OF NET ASSETS
June 30, 2004

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
ASSETS				
Current Assets:				
Cash and Cash Equivalents	$ 49,366,275	$ 8,042,755	$ 57,409,030	$ 20,226,370
Investments	278,478,406	55,398,148	333,876,554	228,646,426
Escrow Deposits	-	-	-	52,444,684
Accounts and Contracts Receivable:				
Internal Balances	(986,712)	986,712	-	-
Due from Primary Government	-	-	-	18,272,467
Due from Component Units	19,847,369	-	19,847,369	-
Due from Other Governmental Agencies	186,403,316	20,494,877	206,898,193	292,559,450
Other Receivables - Net	61,678,985	214,775,510	276,454,495	94,617,846
Total Accounts and Contracts Receivable - Net	266,942,958	236,257,099	503,200,057	405,449,763
Inventories	37,557,354	27,620,127	65,177,481	11,355,046
Prepaid Expenses	127,636	320,687	448,323	4,561,167
Short-Term Loans and Advances to Component Units	358,205	-	358,205	-
Total Current Assets	632,830,834	327,638,816	960,469,650	722,683,456
Non-Current Assets:				
Restricted Assets:				
Cash and Cash Equivalents	69,361,602	53,622,374	122,983,976	8,357,104
Investments	64,620,924	943,746,429	1,008,367,353	732,870,459
Restricted Loans and Notes Recievable	-	-	-	68,642,830
Total Non-Current Restricted Assets	133,982,526	997,368,803	1,131,351,329	809,870,393
Deferred Charges	-	-	-	1,719,417
Capital Assets:				
Non-Depreciable	538,406,664	1,930,743,648	2,469,150,312	558,683,239
Depreciable, Net	655,643,141	2,662,710,878	3,318,354,019	1,402,955,477
Total Capital Assets, Net	1,194,049,805	4,593,454,526	5,787,504,331	1,961,638,716
Other Assets	14,238,261	59,878,846	74,117,107	15,881,346
Total Non-Current Assets	1,342,270,592	5,650,702,175	6,992,972,767	2,789,109,872
Total Assets	1,975,101,426	5,978,340,991	7,953,442,417	3,511,793,328

The accompanying notes are an integral part of the financial statements.

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
LIABILITIES				
Current Liabilities:				
Accounts and Contracts Payable	172,892,718	58,855,488	231,748,206	167,492,022
Due to Other Governmental Agencies	49,076,833	-	49,076,833	-
Due to Primary Government	-	-	-	21,607,800
Due to Component Units	11,957,828	5,526,824	17,484,652	-
Deposits and Refunds	29,774,963	93,067	29,868,030	-
Accrued Interest Payable	13,300,998	60,160,084	73,461,082	23,770,338
Loans and Advances from Primary Government	-	-	-	358,205
Accrued Salaries and Wages	48,008,494	6,078,401	54,086,895	93,017,407
Deferred Revenue	2,711,367	122,331	2,833,698	9,810,804
Other Current Liabilities	50,252,146	13,021,194	63,273,340	281,149,623
Restricted Liabilities:				
Accounts Payable	3,503,843	110,945,867	114,449,710	-
Accrued Public Liability and Worker's Compensation	22,704,836	-	22,704,836	-
Other Liabilities	690,683	-	690,683	-
Total Restricted Liabilities	26,899,362	110,945,867	137,845,229	-
Bonds, Notes and Other Debt Payable - Current	72,033,883	73,520,000	145,553,883	2,195,542,696
Unamortized Premium and Defeasances	-	-	-	33,919,892
Bonds, Notes and Other Debt Payable - Current-Net	72,033,883	73,520,000	145,553,883	112,460,920
Accrued Compensated Absences	4,236,630	19,391,069	23,627,699	2,803,205
Accrued Public Liability and Workers' Compensation	-	6,658,418	6,658,418	324,506
Total Current Liabilities	481,145,222	354,372,743	835,517,965	712,794,830
Long-Term Liabilities:				
Bonds, Notes and Other Debt Payable	977,371,156	4,082,167,599	5,059,538,755	2,195,542,696
Deferred Swap Termination Fees	-	31,000,000	31,000,000	-
Unamortized Premium/(Discount) and Loss (Gain) on Defeasances	22,615,806	(66,239,165)	(43,623,359)	33,919,892
Bonds, Notes and Other Debt Payable -Net	999,986,962	4,046,928,434	5,046,915,396	2,229,462,588
Accrued Compensated Absences	136,234,385	13,001,247	149,235,632	150,074,583
Accrued Public Liability and Workers' Compensation	164,585,116	17,997,269	182,582,385	56,665,005
Total Long-Term Liabilities	1,300,806,463	4,077,926,950	5,378,733,413	2,436,202,176
Total Liabilities	1,781,951,685	4,432,299,693	6,214,251,378	3,148,997,006
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	423,118,665	1,063,418,365	1,486,537,030	541,600,728
Restricted for:				
Endowments and Trust (Non-Expendable)	1,237,820	-	1,237,820	-
Capital Projects	31,229,238	-	31,229,238	31,082,216
Debt Service	52,782,890	199,037,340	251,820,230	24,241,754
Unrestricted (Deficit)	(315,218,872)	283,585,593	(31,633,279)	(248,370,403)
Total Net Assets	$ 193,149,741	$ 1,546,041,298	$ 1,739,191,039	$ 362,796,322

City of Detroit, Michigan
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2004

		Program Revenues	
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions
Primary Government:			
Governmental Activities:			
Public Protection	$ 755,816,119	$ 88,817,490	$ -
Health	172,601,779	11,875,150	128,616,159
Recreation and Culture	82,148,669	10,363,646	-
Economic Development	102,680,484	20,512,694	60,709,539
Educational Development	95,655,097	-	95,579,152
Housing Supply and Conditions	21,190,178	16,617,400	7,105,957
Physical Environment	267,232,775	85,667,448	-
Transportation	49,857,971	-	8,364,954
Development and Management	350,969,773	84,682,688	14,946,203
Interest on Long-Term Debt	58,080,402	-	-
Total Governmental Activities	1,956,233,247	318,536,516	315,321,964
Business-type Activities:			
Sewage Disposal	186,979,859	195,947,900	-
Transportation	206,319,905	24,712,839	89,345,418
Water	198,120,130	223,092,260	-
Automobile Parking	21,990,714	19,618,019	-
Airport	4,030,607	972,659	-
Total Business-type Activities	617,441,215	464,343,677	89,345,418
Total Primary Government	$ 2,573,674,462	$ 782,880,193	$ 404,667,382
Component Units:			
Brownfield Redevelopment Authority	$ 200,328	$ 139,463	$ 104,070
Detroit Public Library	37,989,764	304,294	5,712,417
Downtown Development Authority	62,463,896	11,095,995	-
Economic Development Authority	12,227,756	17,123,677	-
Detroit Housing Commission	66,240,398	69,036,445	-
Local Development Finance Authority	14,513,509	-	6,950,000
Museum of African American History	6,834,923	1,583,936	5,075,412
Detroit Public Schools	1,777,402,877	7,580,249	525,155,465
Tax Increment Finance Authority	11,636,682	-	-
Detroit Transportation Corporation	18,881,512	367,012	9,621,165
Greater Detroit Resource Recovery Authority	116,723,107	43,792,111	71,146,881
Total Component Units	$ 2,125,114,752	$ 151,023,182	$ 623,765,410

General Revenues:

Property Taxes, levied for General Purposes
Property Taxes, levied for Debt Service Purposes
Municipal Income Tax
Utility Users Tax
Wagering Tax
Hotel and Liquor Tax
Other Taxes
Shared Taxes
Interest and Penalties on Taxes
Investment Earnings
Miscellaneous
Gain (Loss) on Disposal of Capital Assets

Transfers

Total General Revenues and Special Item

Change in Net Assets

Net Assets-Beginning of the Year, as Restated

Net Assets-End of Year

The accompanying notes are an integral part of the financial statements.

	Net (Expense) Revenue and Changes in Net Assets			
	Primary Government			
Capital Grants and Contributions	Governmental Activities	Business Type Activities	Total	Component Units
$ -	$ (666,998,629)	$ -	$ (666,998,629)	$ -
3,970,591	(28,139,879)	-	(28,139,879)	-
-	(71,785,023)	-	(71,785,023)	-
43,401,679	21,943,428	-	21,943,428	-
-	(75,945)	-	(75,945)	-
-	2,533,179	-	2,533,179	-
-	(181,565,327)	-	(181,565,327)	-
68,156,341	26,663,324	-	26,663,324	-
-	(251,340,882)	-	(251,340,882)	-
-	(58,080,402)	-	(58,080,402)	-
115,528,611	(1,206,846,156)	-	(1,206,846,156)	-
-	-	8,968,041	8,968,041	-
29,420,774	-	(62,840,874)	(62,840,874)	-
4,038,816	-	29,010,946	29,010,946	-
-	-	(2,372,695)	(2,372,695)	-
299,161	-	(2,758,787)	(2,758,787)	-
33,758,751	-	(29,993,369)	(29,993,369)	-
$ 149,287,362	(1,206,846,156)	(29,993,369)	(1,236,839,525)	-
$ -	-	-	-	43,205
-	-	-	-	(31,973,053)
-	-	-	-	(51,367,901)
-	-	-	-	4,895,921
-	-	-	-	2,796,047
-	-	-	-	(7,563,509)
-	-	-	-	(175,575)
-	-	-	-	(1,244,667,163)
-	-	-	-	(11,636,682)
-	-	-	-	(8,893,335)
-	-	-	-	(1,784,115)
$ -	-	-	-	(1,350,326,160)
....	189,273,351	-	189,273,351	156,517,515
....	64,607,621	-	64,607,621	104,758,050
....	290,614,837	-	290,614,837	-
....	47,422,918	-	47,422,918	-
....	116,145,598	-	116,145,598	-
....	16,217,263	-	16,217,263	-
....	4,337,425	-	4,337,425	12,324,026
....	286,479,535	-	286,479,535	935,142,434
....	13,780,520	-	13,780,520	1,108,699
....	4,500,270	12,516,207	17,016,477	9,830,412
....	13,624,695	3,812,743	17,437,438	25,976,014
....	(451,750)	-	(451,750)	-
....	(77,108,036)	77,108,036	-	-
....	969,444,247	93,436,986	1,062,881,233	1,245,657,150
....	(237,401,909)	63,443,617	(173,958,292)	(104,669,010)
....	430,551,650	1,482,597,681	1,913,149,331	467,465,332
....	$ 193,149,741	$ 1,546,041,298	$ 1,739,191,039	$ 362,796,322

City of Detroit, Michigan
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2004

	Primary Government		
	General Fund	Other Governmental Funds	Total
ASSETS			
Cash and Cash Equivalents	$ 15,264,299	$ 34,101,976	$ 49,366,275
Investments	19,894,600	258,583,806	278,478,406
Accounts and Contracts Receivable:			
Due from Other Funds	21,530,355	9,099,438	30,629,793
Due from Fiduciary Funds	4,495,129	-	4,495,129
Due from Component Units	19,818,618	28,751	19,847,369
Due from Other Governmental Agencies	147,674,929	38,728,387	186,403,316
Estimated Withheld Income Taxes Receivable	26,684,072	-	26,684,072
Utility Users' Taxes Receivable	1,267,347	-	1,267,347
Other Receivables	27,026,133	860,766	27,886,899
Total Accounts and Contracts Receivable	248,496,583	48,717,342	297,213,925
Allowance for Uncollectible Accounts	(13,614,758)	(452,744)	(14,067,502)
Total Accounts and Contracts Receivable - Net	234,881,825	48,264,598	283,146,423
Advances to Component Units	-	358,205	358,205
Land Contracts Receivable	6,224,469	-	6,224,469
Inventory-Forfeited Property	-	572,568	572,568
Inventories	36,543,693	441,093	36,984,786
Prepaid Expenditures	-	127,636	127,636
Property Tax Receivable, Net	15,803,134	5,730,160	21,533,294
Income Tax Assessments, Net	40,250,167	-	40,250,167
Special Assessments, Net	1,370,579	335,844	1,706,423
Interest and Penalties	5,530,000	2,000,000	7,530,000
Working Capital Advances to Other Funds	3,557,000	-	3,557,000
Restricted Assets:			
Cash and Cash Equivalents	1,251,069	68,110,533	69,361,602
Investments	64,620,924	-	64,620,924
Due from Other Funds	22,418,119	-	22,418,119
Total Restricted Assets	88,290,112	68,110,533	156,400,645
Other Advances	5,000	-	5,000
Other Assets	9,014	-	9,014
Total Assets	$ 467,623,892	$ 418,626,419	$ 886,250,311

The accompanying notes are an integral part of the financial statements.

City of Detroit, Michigan
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2004

	Primary Government		
	General Fund	Other Governmental Funds	Total
LIABILITIES			
Accounts and Contracts Payable	$ 17,460,868	$ 35,176,838	$ 52,637,706
Due to Other Funds	37,752,259	18,772,806	56,525,065
Due to Fiduciary Funds	76,510,398	-	76,510,398
Loans and Other Advances from Other Funds	-	997,000	997,000
Due to Other Governmental Agencies	17,914,031	16,925,856	34,839,887
Due to Component Units	11,957,828	-	11,957,828
Accrued Salaries and Wages	23,137,821	2,138,438	25,276,259
Fringes Benefits Payable	4,196,493	10,263	4,206,756
Payroll Deductions Payable	18,525,479	-	18,525,479
Accrued Compensated Absences	706,105	-	706,105
Income Tax Refunds Payable	11,087,702	-	11,087,702
Deposits from Vendors and Customers	15,761,654	2,925,607	18,687,261
Accrued Liabilities	34,254,603	9,490,011	43,744,614
Other Liabilities	48,824,932	1,427,214	50,252,146
Liabilities Payable from Restricted Assets:			
Accounts and Contracts Payable	3,503,843	-	3,503,843
Accrued Public Liability	6,148,836	-	6,148,836
Accrued Worker's Compensation Payable	2,656,180	-	2,656,180
Due to Other Funds	69,559	-	69,559
Other Liabilities	690,683	-	690,683
Total Liabilities Payable from Restricted Assets	13,069,101	-	13,069,101
Deferred Revenue	67,248,349	12,113,460	79,361,809
Total Liabilities	398,407,623	99,977,493	498,385,116
FUND BALANCES			
Reserved Fund Balance:			
Reserved for Inventory	36,543,693	1,013,661	37,557,354
Reserved for Encumbrances	48,922,088	12,404,738	61,326,826
Reserved for Short-Term Loans and Advances to Other Funds	3,557,000	-	3,557,000
Reserved for Risk Management Operations	35,917,561	-	35,917,561
Reserved for Motor Vehicle Operations	39,303,450	-	39,303,450
Reserved for Endowments and Trusts	5,000	1,232,820	1,237,820
Reserved for Debt Service	-	70,466,781	70,466,781
Reserved for Capital Projects	-	159,136,549	159,136,549
Total Reserved Fund Balance	164,248,792	244,254,549	408,503,341
Unreserved Fund Balance (Deficit):			
Undesignated, Reported In:			
General Fund Operations (Deficit)	(95,032,523)	-	(95,032,523)
Special Revenue Funds	-	74,394,377	74,394,377
Total Unreserved Fund Balance (Deficit)	(95,032,523)	74,394,377	(20,638,146)
Total Fund Balances	69,216,269	318,648,926	387,865,195
Total Liabilities, and Fund Balances	$ 467,623,892	$ 418,626,419	$ 886,250,311

City of Detroit, Michigan
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
June 30, 2004

Fund balances - total governmental funds			$	387,865,195
Amounts reported for governmental activities in the statement of net assets are different because				
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental fund				
Governmental capital asset	$	2,381,753,466		
Less accumulated depreciation		(1,187,703,661)		1,194,049,805
Other assets used in governmental activities are not financial resources and therefore are not reported in the governmental fund				
Bond Costs		27,798,281		
Less accumulated amortization		(13,574,034)		14,224,247
Receivables applicable to governmental activities are not due and collectible in the current period and therefore are deferred in governmental funds				14,819,129
Long term liabilities, including bonds payable are not due and payable in the current period and therefore are not reported in the governmental fund				
Governmental long term debt payable		(1,049,405,039)		
Premium		(24,246,370)		
Loss on Advance Refunding		1,630,564		
Grant Audit Amount Due to Other Governments		(14,236,946)		
Accrued interest payable		(13,300,998)		
Compensated Absences		(139,764,910)		
Public Liability and Workers Compensation		(178,484,936)		(1,417,808,635)
Net assets of governmental activities			$	193,149,741

The accompanying notes are an integral part of the financial statements.

City of Detroit, Michigan
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2004

	Primary Government		
	General Fund	Other Governmental Funds	Total
REVENUES:			
Taxes:			
Property Taxes	$ 184,765,334	$ 64,607,621	$ 249,372,955
Municipal Income Tax	290,614,837	-	290,614,837
Utility Users' tax	50,473,815	-	50,473,815
Wagering Taxes	116,145,598	-	116,145,598
Gas and Weight Tax	-	65,806,351	65,806,351
Other Taxes and Assessments	12,004,503	2,906,653	14,911,156
State Hotel and Liquor Tax	-	16,217,263	16,217,263
State Shared Taxes	286,479,535	-	286,479,535
Shared Taxes-Liquor and Beer Licenses	528,355	-	528,355
Interest and Penalties on Taxes	13,969,136	-	13,969,136
Licenses, Permits and Inspection Charges	9,390,863	20,073,051	29,463,914
Intergovernmental:			
Federal	3,066,675	250,554,178	253,620,853
State	51,477,038	13,230,137	64,707,175
State Equity Grant	982,701	-	982,701
Other	24,026,485	12,189,505	36,215,990
Sales and Charges for Services	176,033,663	14,894,475	190,928,138
Ordinance Fines	23,433,745	4,804,153	28,237,898
Revenue from Use of Assets	26,136,815	2,559,616	28,696,431
Earnings on Investments	1,467,561	3,032,709	4,500,270
Other Revenue	104,070,617	20,716,987	124,787,604
Total Revenues	1,375,067,276	491,592,699	1,866,659,975
EXPENDITURES:			
Current:			
Public Protection	704,456,041	33,874,791	738,330,832
Health	88,874,154	83,427,373	172,301,527
Recreation and Culture	73,769,563	-	73,769,563
Economic Development	24,138,733	72,133,726	96,272,459
Educational Development	-	95,579,152	95,579,152
Housing Supply and Conditions	14,044,090	7,105,957	21,150,047
Physical Environment	232,268,536	-	232,268,536
Transportation Facilitiation	-	49,857,971	49,857,971
Development and Management	387,713,093	-	387,713,093
Debt Service:			
Principal	-	81,450,470	81,450,470
Interest	-	53,075,658	53,075,658
Bond Issuance Costs	3,367,420	2,224,008	5,591,428
Capital Outlay	48,930,333	113,663,461	162,593,794
Total Expenditures	1,577,561,963	592,392,567	2,169,954,530
Excess (Deficiency) of Revenues Over Expenditures	(202,494,687)	(100,799,868)	(303,294,555)
OTHER FINANCING SOURCES (USES):			
Sources:			
Transfers In	31,638,974	131,044,568	162,683,542
Proceeds of Capital Leases	24,541,150	-	24,541,150
Proceeds from Debt Issuance	201,725,000	145,673,138	347,398,138
Premium from Debt Issuance	8,160,573	10,410,102	18,570,675
Uses:			
Transfers Out	138,383,434	101,408,144	239,791,578
Principal Paid to Bond Agent for Refunded Bonds	40,880,000	79,845,000	120,725,000
Interest Paid to Bond Agent for Refunded Bonds	523,744	2,323,938	2,847,682
Total Other Financing Sources (Uses)	86,278,519	103,550,726	189,829,245
SPECIAL ITEM - Casino Development Revenue	38,250,000	-	38,250,000
Net Change in Fund Balances	(77,966,168)	2,750,858	(75,215,310)
Fund Balance at Beginning of Year	140,304,407	316,090,868	456,395,275
Increase (Decrease) in Inventories	6,878,030	(192,800)	6,685,230
Fund Balance at End of Year	$ 69,216,269	$ 318,648,926	$ 387,865,195

City of Detroit, Michigan
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
June 30, 2004

Change in fund balances - total governmental funds			$	(75,215,310)
Amounts reported for governmental activities in the statement of net assets are different because				
Governmental funds report capital outlays as expenditure. However, in the statement of activities, the cost of those assets is depreciated over their estimated useful lives				
Expenditures for capital assets	$	153,535,315		
Less current year depreciation		(75,549,376)		77,985,939
Gain on sale of capital assets is reported in the statement of activities, whereas in the governmental funds, the gain from the sale increases financial resources. Thus, the change in net assets differs from the change in fund balance by the cost of assets sold				(451,750)
Some revenues reported in the statement of activities do not require the use of current financial resources and therefore are not reported as revenues in governmental funds				(36,981,496)
Some expenditures reported in governmental funds are to be collected on a long-term basis and therefore are not reported as expenses in the statement of activities				
Inventory				6,685,230
Repayment of bond principal and other debt is an expenditure in the governmental funds, but the repayment reduces long term liabilities in the statement of net assets.				202,175,469
Bond and note proceeds and provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. The amount represents the proceeds received net of bond issuance cost and premiums that must be amortized over the life of the bond				(384,918,535)
Some expenses recorded in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds:				
Increase in Due to Other Governments - Grant Audits		(14,236,946)		
Increase in accrued interest expense		(2,157,061)		
Increase in accrued compensated absences		(4,825,206)		
Increase in accrued public liability and workers compensation		(7,451,909)		
Amortization of current year bond premium and defeasances		4,261,094		
Amortization of current year bond cost		(2,271,428)		(26,681,456)
Change in net assets of governmental activities			$	(237,401,909)

The accompanying notes are an integral part of the financial statements.

City of Detroit
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE — BUDGET AND ACTUAL
GENERAL FUND
For the Year Ended June 30, 2004

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance Positive (Negative)
REVENUES:				
Taxes:				
Property Taxes	$ 188,159,810	$ 188,159,810	$ 184,765,334	$ (3,394,476)
Municipal Income Tax	311,080,000	311,080,000	290,614,837	(20,465,163)
Utility Users' Tax	55,200,000	55,200,000	50,473,815	(4,726,185)
Wagering Taxes	110,000,000	110,000,000	116,145,598	6,145,598
Other Taxes and Assessments	11,909,513	11,909,513	12,004,503	94,990
Interest and Penalties on Taxes	11,000,000	11,000,000	13,969,136	2,969,136
Total Taxes, Assessments, Interest and Penalties	687,349,323	687,349,323	667,973,223	(19,376,100)
Licenses, Permits and Inspection Charges:				
Business Licenses	1,330,000	1,330,000	1,913,369	583,369
Permits	1,535,000	1,535,000	1,331,395	(203,605)
Inspection Charges	8,588,313	8,588,313	6,066,829	(2,521,484)
Other Licenses	95,364	95,364	79,270	(16,094)
Total Licenses, Permits and Inspection Charges	11,548,677	11,548,677	9,390,863	(2,157,814)
Shared Taxes:				
Liquor and Beer License	545,000	545,000	528,355	(16,645)
State Shared Tax	311,494,672	311,494,672	286,479,535	(25,015,137)
Total Shared Taxes	312,039,672	312,039,672	287,007,890	(25,031,782)
Intergovernmental:				
Federal	8,023,229	31,598,379	3,066,675	(28,531,704)
State	57,164,548	112,033,054	51,477,038	(60,556,016)
State Equity Grant	2,339,600	2,339,600	982,701	(1,356,899)
Other Grants	3,340,190	42,601,598	24,026,485	(18,575,113)
Total Grants	70,867,567	188,572,631	79,552,899	(109,019,732)
Sales and Charges for Services:				
Maintenance and Construction	1,414,540	1,414,540	216,634	(1,197,906)
Other Labor and Materials	215,000	215,000	5,081	(209,919)
Electrical	47,190,000	47,190,000	44,471,502	(2,718,498)
Steam	630,900	630,900	772,045	141,145
Sanitation Charges	778,600	778,600	573,071	(205,529)
Recreation Fees	6,686,980	6,457,814	4,982,591	(1,475,223)
Collection Fees	5,607,000	5,637,000	3,452,267	(2,184,733)
Other Fees	35,087,402	35,201,289	37,901,639	2,700,350
Personal Services	64,046,761	63,725,305	58,519,619	(5,205,686)
Other Departmental Sales	36,674,387	39,846,823	25,139,214	(14,707,609)
Total Sales and Charges for Services	198,331,570	201,097,271	176,033,663	(25,063,608)
Ordinance Fines	25,975,517	25,975,517	23,433,745	(2,541,772)
Revenue from Use of Assets:				
Earnings on Investments	2,643,000	2,608,685	1,467,561	(1,141,124)
Real Estate Rentals	7,859,939	7,859,939	6,693,751	(1,166,188)
Concessions	4,784,804	4,784,804	3,282,317	(1,502,487)
Sale of Real Property	13,534,041	13,534,041	16,160,747	2,626,706
Total Revenue from Use of Assets	28,821,784	28,787,469	27,604,376	(1,183,093)
Other Revenue	156,390,554	102,240,592	104,070,617	1,830,025
Total Revenues	1,491,324,664	1,557,611,152	1,375,067,276	(182,543,876)

(Continued)

City of Detroit
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE — BUDGET AND ACTUAL
GENERAL FUND
For the Year Ended June 30, 2004

	Budgeted Amounts		Actual	Variance Positive
	Original	Final	Amounts	(Negative)
EXPENDITURES:				
Public Protection:				
Consumer Affairs	1,661,811	1,661,811	1,331,712	330,099
Fire	182,245,549	184,545,119	182,240,815	2,304,304
Human Rights	2,474,211	2,518,211	2,248,191	270,020
Ombudsman	1,566,079	1,566,079	1,498,440	67,639
Parking Enforcement	9,720,356	9,720,356	9,086,959	633,397
Police	434,999,479	485,977,121	462,645,107	23,332,014
36th District Court	47,044,713	47,086,545	45,404,817	1,681,728
Total Public Protection	679,712,198	733,075,242	704,456,041	28,619,201
Health	99,789,054	144,200,497	88,874,154	55,326,343
Recreation and Culture:				
Arts	642,975	642,975	643,544	(569)
Cultural Affairs	1,884,807	2,423,026	1,649,883	773,143
Historical	3,449,789	3,451,213	3,525,076	(73,863)
Recreation	54,779,568	66,265,568	53,550,033	12,715,535
Senior Citizens	1,190,399	2,026,146	1,012,608	1,013,538
Zoological Park	14,855,382	15,361,382	13,388,419	1,972,963
Total Recreation and Culture	76,802,920	90,170,310	73,769,563	16,400,747
Economic Development — Civic Center	26,845,141	26,830,829	24,138,733	2,692,096
Housing Supply and Conditions:				
Planning and Development	11,569,597	23,510,673	14,044,090	9,466,583
Total Housing Supply and Conditions	11,569,597	23,510,673	14,044,090	9,466,583
Physical Environment:				
Environmental Affairs	3,196,285	3,821,251	2,722,564	1,098,687
Public Lighting	68,222,263	68,194,879	61,493,752	6,701,127
Public Works	178,109,675	178,014,280	168,052,220	9,962,060
Total Physical Environment	249,528,223	250,030,410	232,268,536	17,761,874
Development and Management:				
Auditor General	3,462,645	3,377,646	2,648,510	729,136
Budget	3,403,140	3,418,432	3,138,420	280,012
City Clerk	4,630,024	4,619,024	4,155,691	463,333
City Council	20,853,258	20,848,683	13,969,551	6,879,132
Communications & Creative Services	2,285,760	2,198,030	2,031,734	166,296
Election	8,691,046	8,726,046	6,088,909	2,637,137
Finance	50,381,667	50,168,111	41,674,999	8,493,112
Law	32,582,259	32,844,657	28,497,965	4,346,692
Mayor's Office	11,456,278	11,716,401	9,979,579	1,736,822
Human Resources	30,540,945	30,540,945	26,258,463	4,282,482
Information Technology Services	35,938,416	38,499,538	26,798,893	11,700,645
Zoning Appeals Board	1,057,476	1,057,476	892,449	165,027
Employment & Training	2,944	606,339	5,951	600,388
Human Services	6,482,136	9,419,930	5,640,332	3,779,598
Non Departmental	214,103,228	275,785,407	215,931,647	59,853,760
Total Development and Management	425,871,222	493,826,665	387,713,093	106,113,572
Capital Outlay	75,185,951	87,117,421	48,930,333	38,187,088

(Continued)

City of Detroit
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE — BUDGET AND ACTUAL
GENERAL FUND
For the Year Ended June 30, 2004

	Budgeted Amounts		Actual	Variance Positive
	Original	Final	Amounts	(Negative)
Debt Service:				
Bond Issuance Costs	24,000	721,336	3,367,420	(2,646,084)
Total Debt Service	24,000	721,336	3,367,420	(2,646,084)
Total Expenditures	1,645,328,307	1,849,483,383	1,577,561,963	271,921,420
Excess (Deficiency) of Revenues Over Expenditures	(154,003,643)	(291,872,231)	(202,494,687)	89,377,544
OTHER FINANCING SOURCES (USES):				
Sources:				
Transfers In	35,454,845	114,689,313	31,638,974	(83,050,339)
Proceeds of Capital Leases	24,541,150	24,541,150	24,541,150	-
Premium from Debt Issuance	8,160,573	8,160,573	8,160,573	-
Proceeds from Debt Issuance	90,698,995	167,265,006	201,725,000	34,459,994
Total Other Financing Sources	158,855,563	314,656,042	266,065,697	(48,590,345)
Uses:				
Transfers Out	108,522,123	126,454,014	138,383,434	(11,929,420)
Principal Paid to Bond Agent for Refunded Bonds	12,280,225	12,280,225	40,880,000	(28,599,775)
Interest Paid to Bond Agent for Refunded Bonds	523,744	523,744	523,744	-
Total Other Financing Uses	121,326,092	139,257,983	179,787,178	(40,529,195)
Total Other Financing Sources and Uses	37,529,471	175,398,059	86,278,519	(89,119,540)
SPECIAL ITEM - Casino Development Revenue	38,250,000	38,250,000	38,250,000	-
Net Change in Fund Balance	(78,224,172)	(78,224,172)	(77,966,168)	258,004
Fund Balance at Beginning of Year	78,224,172	78,224,172	140,304,407	62,080,235
Increase (Decrease) in Inventories	-	-	6,878,030	6,878,030
Fund Balance at End of Year	$ -	$ -	$ 69,216,269	$ 69,216,269

The accompanying notes are an integral part of the financial statements.

City of Detroit, Michigan
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2004

ASSETS	Sewage Disposal Fund	Transportation Fund
Current Assets:		
Cash and Cash Equivalents	$ -	$ 2,367,033
Investments	40,242,687	1,643,586
Accounts and Contracts Receivable:		
Due from Other Funds	40,413,894	236,405
Due from Other Governmental Agencies	-	20,485,453
Other Receivables- Trade	190,767,579	707,656
Total Accounts and Contracts Receivable	231,181,473	21,429,514
Allowance for Uncollectible Accounts	(42,901,655)	(44,290)
Total Accounts and Contracts Receivable - Net	188,279,818	21,385,224
Inventories	10,890,503	9,897,618
Prepaid Expenses	5,880	-
Restricted Cash and Cash Equivalants	31,905,215	-
Restricted Investments	349,717,460	-
Restricted Due from Other Funds	20,688,810	-
Total Current Assets	641,730,373	35,293,461
Noncurrent Assets:		
Restricted:		
Investments	261,766,757	-
Capital Assets:		
Land	13,876,751	4,114,574
Land Improvements	-	-
Buildings and Structures	891,488,855	65,498,463
Water and Sewer Lines	532,455,750	-
Equipment, Machinery, and Fixtures	572,095,371	48,489,640
Vehicles and Buses	-	148,970,549
Construction Work in Progress	1,203,738,078	4,699,876
Total Capital Assets	3,213,654,805	271,773,102
Less: Accumulated Depreciation	(637,571,035)	(141,287,061)
Net Capital Assets	2,576,083,770	130,486,041
Total Non-Current Assets	2,837,850,527	130,486,041
Other Assets:		
Bond Issuance Costs	31,105,792	-
Other	-	650,000
Total Noncurrent Assets	2,868,956,319	131,136,041
Total Assets	3,510,686,692	166,429,502

(Continued)

Water Fund		Automobile Parking Fund		Non-Major Funds		Total
$	3,811,324	$	1,226,170	$	772,417	$ 8,176,944
	13,491,812		20,063		-	55,398,148
	30,044,331		779,598		1,037,750	72,511,978
	-		-		9,424	20,494,877
	94,940,116		1,097,789		831,061	288,344,201
	124,984,447		1,877,387		1,878,235	381,351,056
	(30,237,264)		-		(385,482)	(73,568,691)
	94,747,183		1,877,387		1,492,753	307,782,365
	6,832,006		-		-	27,620,127
	106,819		119,295		88,693	320,687
	21,717,159		-		-	53,622,374
	273,615,422		203,360		-	623,536,242
	19,027,664		-		-	39,716,474
	433,349,389		3,446,275		2,353,863	1,116,173,361
	22,769,343		35,674,087		-	320,210,187
	6,527,438		7,014,114		5,169,374	36,702,251
	96,834,157		214,908		8,020,718	105,069,783
	453,406,152		199,088,852		5,272,287	1,614,754,609
	689,057,547		-		-	1,221,513,297
	492,782,490		2,339,955		1,729,317	1,117,436,773
	-		-		1,482,115	150,452,664
	679,745,387		5,858,056		-	1,894,041,397
	2,418,353,171		214,515,885		21,673,811	6,139,970,774
	(647,652,745)		(107,900,645)		(12,104,762)	(1,546,516,248)
	1,770,700,426		106,615,240		9,569,049	4,593,454,526
	1,793,469,769		142,289,327		9,569,049	4,913,664,713
	27,605,624		-		-	58,711,416
	-		517,430		-	1,167,430
	1,821,075,393		142,806,757		9,569,049	4,973,543,559
	2,254,424,782		146,253,032		11,922,912	6,089,716,920

City of Detroit, Michigan
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2004 (Continued)

LIABILITIES AND NET ASSETS	Sewage Disposal Fund	Transportation Fund
Liabilities:		
Current Liabilities:		
Book Cash Overdraft	134,189	-
Accounts and Contracts Payable	13,928,353	14,478,990
Due to Other Funds	31,637,856	15,350,255
Due to Fiduciary Funds	3,037,250	4,367,232
Due to Component Units	-	5,526,824
Refundable Deposits	-	-
Accrued Salaries and Wages	1,455,830	2,778,992
Accrued Compensated Absences	6,051,544	2,984,129
Accrued Public Liability and Workers Compensation	1,181,346	709,620
Other Liabilities	9,738,648	-
Bonds and Notes Payable	44,825,000	-
Accrued Interest on Bonds and Notes Payable	25,691,034	-
Restricted Accounts and Contracts Payable	78,922,676	-
Restricted Due to Other Funds	5,207,146	-
Restricted Other Liabilities	-	-
Deferred Revenue	-	117,630
Total Current Liabilities	221,810,872	46,313,672
Noncurrent Liabilities:		
Bonds and Notes Payable	2,330,327,599	-
Unamortized Discount and Gain on Defeasances	(8,476,974)	-
Bonds and Notes Payable - Net	2,321,850,625	-
Deferred Swap Termination Fees	14,056,137	-
Accrued Compensated Absences	6,106,719	746,032
Accrued Public Liability and Workers' Compensation	4,025,338	2,838,480
Advance From Other Funds	-	-
Total Noncurrent Liabilities	2,346,038,819	3,584,512
Total Liabilities	2,567,849,691	49,898,184
Net Assets:		
Invested in Capital Assets, Net of Related Debt	610,829,187	130,486,041
Restricted for Debt Service	130,303,233	-
Unrestricted (Deficit)	201,704,581	(13,954,723)
Total Net Assets	$ 942,837,001	$ 116,531,318

The accompanying notes are an integral part of the financial statements.

Enterprise Funds

Water Fund	Automobile Parking Fund	Non-Major Funds	Total
-	-	-	134,189
19,127,419	1,672,280	176,652	49,383,694
47,587,676	1,032,376	490,730	96,098,893
1,580,632	467,162	19,518	9,471,794
-	-	-	5,526,824
-	-	93,067	93,067
1,817,697	-	25,882	6,078,401
9,984,576	199,469	171,351	19,391,069
4,756,519	-	10,933	6,658,418
3,068,993	-	213,553	13,021,194
22,440,000	6,255,000	-	73,520,000
32,246,376	2,222,674	-	60,160,084
31,321,660	-	80,000	110,324,336
7,375,701	-	-	12,582,847
621,531	-	-	621,531
-	-	4,701	122,331
181,928,780	11,848,961	1,286,387	463,188,672
1,690,995,000	60,845,000	-	4,082,167,599
(59,570,404)	1,808,213	-	(66,239,165)
1,631,424,596	62,653,213	-	4,015,928,434
16,943,863	-	-	31,000,000
5,604,945	247,624	295,927	13,001,247
11,021,735	-	111,716	17,997,269
-	2,560,000	-	2,560,000
1,664,995,139	65,460,837	407,643	4,080,486,950
1,846,923,919	77,309,798	1,694,030	4,543,675,622
237,151,776	75,382,312	9,569,049	1,063,418,365
68,734,107	-	-	199,037,340
101,614,980	(6,439,078)	659,833	283,585,593
$ 407,500,863	$ 68,943,234	$ 10,228,882	$ 1,546,041,298

City of Detroit, Michigan
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
For the Year Ended June 30, 2004

	Sewage Disposal Fund	Transportation Fund
Operating Revenues:		
Sales and Charges for Services	$ 312,798,177	$ 24,712,839
Rentals, Fees and Surcharges	3,155,337	-
Miscellaneous	3,856,227	-
Total Operating Revenues	319,809,741	24,712,839
Operating Expenses:		
Salaries, Wages and Benefits	45,861,755	123,721,317
Contractual Services	-	24,875,402
Operating	121,556,006	-
Repairs and Maintenance	15,566,222	-
Materials, Supplies and Other Expenses	-	43,588,697
Depreciation and Amortization	50,085,670	14,397,301
Total Operating Expenses	233,069,653	206,582,717
Total Operating Income (Loss)	86,740,088	(181,869,878)
Non-Operating Revenues (Expenses):		
Earnings on Investments	8,017,586	49,744
Grants-Federal	-	23,160,885
Contributions	-	66,184,533
Revenue from Interest Rate Swap	-	-
Interest on Bonds and Notes Payable	(59,629,554)	-
Gain on Disposal of Assets	-	-
Other Revenue	-	2,609,933
Other Expenses	(4,699,023)	-
Total Non-Operating Revenues (Expenses)	(56,310,991)	92,005,095
Net Income (Loss) Before Contributions and Transfers	30,429,097	(89,864,783)
Capital Contributions	-	29,420,774
Transfers In	-	74,318,857
Increase (Decrease) in Net Assets	30,429,097	13,874,848
Net Assets - Beginning of Year, as Restated	912,407,904	102,656,470
Net Assets - End of Year	$ 942,837,001	$ 116,531,318

The accompanying notes are an integral part of the financial statements.

Enterprise Funds

Water Fund	Automobile Parking Fund	Non-Major Funds	Total
$ 251,697,368	$ -	$ 71,677	$ 589,280,061
-	19,478,139	894,513	23,527,989
3,719,815	-	6,469	7,582,511
255,417,183	19,478,139	972,659	620,390,561
42,072,318	2,283,524	1,697,545	215,636,459
-	3,604,361	-	28,479,763
107,890,191	3,917,705	693,491	234,057,393
-	2,246,365	160,486	17,973,073
2,599,262	242,808	857,384	47,288,151
38,853,740	5,901,177	621,701	109,859,589
191,415,511	18,195,940	4,030,607	653,294,428
64,001,672	1,282,199	(3,057,948)	(32,903,867)
4,223,627	225,250	-	12,516,207
-	-	299,161	23,460,046
-	-	-	66,184,533
-	163,099	-	163,099
(52,210,199)	(3,794,906)	-	(115,634,659)
-	140,012	-	140,012
1,039,710	-	-	3,649,643
-	-	-	(4,699,023)
(46,946,862)	(3,266,545)	299,161	(14,220,142)
17,054,810	(1,984,346)	(2,758,787)	(47,124,009)
4,038,816	-	-	33,459,590
-	-	2,789,179	77,108,036
21,093,626	(1,984,346)	30,392	63,443,617
386,407,237	70,927,580	10,198,490	1,482,597,681
$ 407,500,863	$ 68,943,234	$ 10,228,882	$ 1,546,041,298

City of Detroit, Michigan
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended June 30, 2004

	Sewage Disposal Fund	Transportation Fund
Cash Flows from Operations:		
Receipts from Customers	$ 323,241,563	$ 26,602,717
Advances from Other Funds	-	-
Repayments from Other Funds	-	-
Repayments to Other Funds	(3,467,351)	-
Deposits Refunded to Customers	-	-
Payments to Suppliers	(109,592,661)	(65,848,176)
Payments to Employees	(43,049,784)	(123,418,065)
Net Cash Provided by (Used in) Operating Activities	167,131,767	(162,663,524)
Cash Flows from Non-Capital Financing Activities:		
Grants andContributions from Other Governments	-	91,955,351
Transfers from Other Funds	-	79,814,654
Net Cash Provided by Non-Capital Financing Activities	-	171,770,005
Cash Flows from Capital and Related Financing Activities:		
Capital Contributions	-	23,944,107
Acquisition and Construction of Capital Assets	(354,410,519)	(29,433,117)
Proceeds from Bond and Note Issuances	208,532,328	-
Unamortized Discount and Bond Issuance Cost	2,644,404	-
Principal Paid on Bonds and Notes	(38,745,000)	-
Interest Paid on Bonds - Net	(113,346,957)	-
Principal Paid on Refunded Debt	(103,845,000)	-
Amount received through Swap Agreement Debt	-	-
Swap Termination Fees	14,056,137	-
Other Receipts	410,035	-
Net Cash Provided by (Used in) Capital and Related Financing Activities	(384,704,572)	(5,489,010)
Cash Flows from Investing Activities:		
Proceeds (Losses) from Sales and Maturities of Investments, Net	195,891,333	(1,369,744)
Interest on Investment Securities	8,017,587	49,744
Net Cash Provided by (Used in) Investing Activities	203,908,920	(1,320,000)
Net Increase (Decrease) in Cash and Cash Equivalents	(13,663,885)	2,297,471
Cash and Cash Equivalents at Beginning of Year, as Restated	45,434,911	69,562
Cash and Cash Equivalents at End of Year	$ 31,771,026	$ 2,367,033

(Continued)

The accompanying notes are an integral part of the financial statements.

Enterprise Funds			
Water Fund	Automobile Parking Fund	Non-Major Funds	Total
$ 248,883,564	$ 19,788,804	$ 886,368	$ 619,403,016
-	1,310,000	-	1,310,000
-	(447,077)	-	(447,077)
(30,515,991)	(523,276)	(59,045)	(34,565,663)
-	-	2,811	2,811
(109,534,716)	(10,132,891)	(1,344,144)	(296,452,588)
(38,181,938)	(2,117,261)	(1,534,665)	(208,301,713)
70,650,919	7,878,299	(2,048,675)	80,948,786
-	-	289,737	92,245,088
-	-	3,078,916	82,893,570
-	-	3,368,653	175,138,658
4,038,816	-	-	27,982,923
(149,715,214)	(892,957)	-	(534,451,807)
226,410,000	-	-	434,942,328
4,725,892	314,649	-	7,684,945
(19,740,000)	(6,215,000)	-	(64,700,000)
(80,728,302)	(3,811,036)	-	(197,886,295)
(226,410,000)	-	-	(330,255,000)
-	4,077,469	-	4,077,469
16,943,863	-	-	31,000,000
1,039,710	-	-	1,449,745
(223,435,235)	(6,526,875)	-	(620,155,692)
125,994,982	(981,439)	-	319,535,132
4,223,627	225,250	-	12,516,208
130,218,609	(756,189)	-	332,051,340
(22,565,707)	595,235	1,319,978	(32,016,908)
48,094,190	630,935	203,160	94,432,758
$ 25,528,483	$ 1,226,170	$ 1,523,138	$ 62,415,850

City of Detroit, Michigan
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS (Continued)
For the Year Ended June 30, 2004

	Sewage Disposal Fund	Transportation Fund
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:		
Operating Income (Loss)	$ 86,740,088	$ (181,869,878)
Adjustments to Operating Income (Loss):		
Depreciation and Amortization	50,085,670	14,397,301
Allowance for Uncollectible Accounts	5,237,411	(7,580)
Late Charges and Other, Net	(6,468,196)	-
Changes in Assets and Liabilities:		
Other Receivables - Trade	(10,074,723)	1,889,878
Inventories	3,365,569	1,655,682
Prepaid Expenses	29,477,360	-
Accounts Receivable Expenses	-	-
Due from Other Funds	-	-
Accounts and Contracts Payable	5,412,445	1,062,881
Due to Other Funds	(3,467,351)	(1,728,671)
Due to Component Units	-	880,571
Due to Governmental Agencies	-	-
Other Liabilities	4,041,931	-
Accrued Compensated Absences	-	(117,814)
Accrued Public Liability and Worker Compensation	2,524,033	753,040
Advances from Other Funds	-	-
Refundable Deposits	-	-
Prepaid Revenue	-	-
Accrued Salaries and Wages	257,530	421,066
Net Cash Provided by (Used in) Operating Activities	$ 167,131,767	$ (162,663,524)

The accompanying notes are an integral part of the financial statements.

Enterprise Funds			
Water Fund	Automobile Parking Fund	Non-Major Funds	Total
$ 64,001,672	$ 1,282,199	$ -	$ (29,845,919)
38,853,740	5,901,177	-	109,237,888
-	-	-	5,229,831
-	-	-	(6,468,196)
(9,800,681)	-	-	(17,985,527)
622,369	-	-	5,643,620
428,602	(201,720)	-	29,704,242
-	310,665	-	310,665
(30,515,991)	(447,077)	2,811	(30,960,257)
3,912,059	80,068	72	10,467,525
-	(523,276)	-	(5,719,298)
-	-	-	880,571
-	-	-	-
-	-	-	4,041,931
-	166,263	(2,048,675)	(2,000,226)
2,922,120	-	-	6,199,193
-	1,310,000	-	1,310,000
-	-	-	-
-	-	-	-
227,029	-	-	905,625
$ 70,650,919	$ 7,878,299	$ (2,045,792)	$ 80,951,669

City of Detroit, Michigan
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
June 30, 2004

	Pension and Other Employee Benefit Funds	Agency Funds	Total
ASSETS			
Cash and Cash Equivalents	$ 7,972,268	$ 2,398,727	$ 10,370,995
Investments at Fair Value:			
Short-Term Investments	153,642,872	-	153,642,872
Commercial Paper	4,964,125	-	4,964,125
U. S. Government Obligations	75,727	-	75,727
Bonds and Stocks	4,133,187,361	-	4,133,187,361
Mortgage-Backed Securities	152,535,435	-	152,535,435
Mortgage and Construction Loans	243,145,421	-	243,145,421
Equity Interest in Real Estate	166,362,111	-	166,362,111
Real Estate Investment Trusts Held by Custodian	28,522,443	-	28,522,443
Pooled Investments	472,759,003	7,108,506	479,867,509
Private Placements	302,152,022	-	302,152,022
Total Investments	5,657,346,520	7,108,506	5,664,455,026
Accrued Interest Receivable	25,454,111	-	25,454,111
Accounts Receivable:			
Due from Primary Government	85,796,911	185,281	85,982,192
Due from Component Units	1,760,431	-	1,760,431
Other Receivables	100,600,019	-	100,600,019
Total Accounts Receivable	188,157,361	185,281	188,342,642
Cash and Investments Held as Collateral for Secuities Lending	889,804,447	-	889,804,447
Other Assets	1,138,284	-	1,138,284
Total Assets	6,769,872,991	9,692,514	6,779,565,505
LIABILITIES AND NET ASSETS			
Liabilities:			
Accounts and Contracts Payable	12,104,309	1,758,815	13,863,124
Due to Broker	133,277,124	-	133,277,124
Benefits and Claims Payable	12,147,545	-	12,147,545
Due to Primary Government	4,377,914	117,215	4,495,129
Due to Component Units	787,815	-	787,815
Amount Due to Broker for Secuities Lending	889,804,447	-	889,804,447
Other Liabilities	29,245,952	7,816,484	37,062,436
Total Liabilities	1,081,745,106	9,692,514	1,091,437,620
Net Assets:			
Net Assets Held in Trust for Pension and Employee Benefits	$ 5,688,127,885	$ -	$ 5,688,127,885

(An unaudited Schedule of Employer Contributions and Funding Progress is presented on page 82)

The accompanying notes are an integral part of the financial statements.

City of Detroit, Michigan
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
For the Year Ended June 30, 2004

		Pension and Other Employee Benefit Funds
ADDITIONS:		
Employer Contributions	$	418,018,244
Plan Member Contributions		57,700,769
Other Income		16,145,774
Total Contributions		491,864,787
Investment Gain		754,857,358
Total Additions		1,246,722,145
DEDUCTIONS:		
Pension and Annuity Benefits		357,303,189
Premiums to Insurers and Damage Claims		275,675,854
Benefits		2,855,837
Refunds		145,422,902
General and Administrative Expenses		7,590,116
Total Deductions		788,847,898
Net Increase		457,874,247
Net Assets Held in Trust for Pension and Employee Benefits, Beginning of Year		5,230,253,638
Net Assets Held in Trust for Pension and Employee Benefits, End of Year	$	5,688,127,885

The accompanying notes are an integral part of the financial statements.

City of Detroit, Michigan
STATEMENT OF NET ASSETS
COMPONENT UNITS
June 30, 2004

	Brownfield Redevelopment Authority	Detroit Public Library	Downtown Development Authority	Economic Development Corporation	Detroit Housing Commission	Local Development Finance Authority	Museum of African American History
ASSETS:							
Cash and Cash Equivalents	$ 125,218	$ 68,321	$ 1,428,134	$ 3,170,197	$ 5,239,526	$ 5,358	$ 1,037,167
Escrow Deposits-Cash	-	-	109,884	48,262,665	4,072,135	-	-
Investments, including Accrued Interest	-	3,922,184	118,437,981	18,777,406	-	-	426,082
Accounts and Contracts Receivable:							
Due from Primary Government	-	10,019,030	548,778	-	-	1,390,020	-
Due from Other Governments	-	1,598,535	-	-	13,324,884	365,548	-
Other Recievables	30,167	8,168,188	223,906	1,046,725	736,532		20,618
Total Accounts and Contracts Receivable	30,167	19,785,753	772,684	1,046,725	14,061,416	1,755,568	20,618
Allowance for Doubtful Accounts	-	(5,875,000)	-	-	(1,517,755)	-	-
Total Accounts and Contracts Receivable - Net	30,167	13,910,753	772,684	1,046,725	12,543,661	1,755,568	20,618
Inventory	-	3,224,483	-	-	-	-	118,798
Prepaid Expenditures/Expenses	-	-	109,708	-	438,424	-	42,719
Taxes, Interest, and Penalties Receivable - Net	-	795,000	4,748,316	-	16,419	-	-
Loans and Notes Receivable	-	-	65,496,225	2,592,196	554,409	-	-
Inventory Net of Allowance	-	-	-	-	312,612	-	-
Unamortized Bond and Note Issue Costs- Net	-	-	3,631,939	-	-	-	-
Restricted Cash	-	1,390,386	-	-	417,123	-	-
Restricted Escrow Deposits-Cash	-	-	-	-	1,589,973	-	-
Restricted Investments	-	6,451,567	-	-	-	28,134,743	-
Capital Assets:							
Land	-	1,371,996	7,544,670	-	15,119,876	-	-
Artwork	-	1,230,175	-	-	-	-	-
Plant and Equipment	-	160,765,691	26,823,841	-	144,602,286	-	7,204,534
Construction Work in Progress	-	-	-	-	23,942,191	-	-
Less: Accumulated Depreciation	-	(149,482,798)	(1,291,691)	-	(61,436,801)	-	(1,949,044)
Capital Assets, Net	-	13,885,064	33,076,820	-	122,227,552	-	5,255,490
Other	-	-	2,556,203	1,009,482	6,639,235	-	-
Deferred Charges	-	-	-	-	-	-	-
Total Assets	155,385	43,647,758	230,367,894	74,858,671	154,051,069	29,895,669	6,900,874
LIABILITIES:							
Current Liabilities:							
Accounts Payable and Contracts Payable	84,765	134,644	1,283,061	48,409,675	3,777,483	295,117	437,641
Interest Payable	-	-	6,617,492	248,092	-	819,156	-
Due to Primary Government	-	2,016,105	899,109	2,715	2,971,985	-	3,047
Advances Due to Primary Government	-	-	-	358,205	-	-	-
Accrued Salaries and Wages	-	774,220	-	-	113,617	-	179,961
Deferred Revenues	-	-	-	-	628,301	-	510,000
Other Current Liabilities	-	281,061	7,163,135	-	3,426,413	-	-
State Aid Anticipation and Other Notes Payable	-	-	-	-	-	-	-
Bonds, Notes, and Other Debt Payables-Current	-	-	10,548,000	1,508,185	-	2,190,000	530,732
Unamortized Premuims and Defeasances	-	-	(70,303)	-	-	-	-
Bonds, Notes and Other Debt Payable-Curent-Net	-	-	10,477,697	1,508,185	-	2,190,000	530,732
Accrued Compensated Absences	-	189,017	-	-	288,311	-	-
Accrued Public Liability and Workers Compensation	-	177,597	-	-	146,909	-	-
Noncurrent Liabilities:							
Bonds, Notes, and Other Debt Payables-Noncurrent	-	-	169,273,198	1,255,963	15,343,095	89,211,533	34,543
Unamortized Premuims and Defeasances	-	-	(1,492,731)	-	-	-	-
Bonds, Notes and Other Debt Payable-NonCurent-Net	-	-	167,780,467	1,255,963	15,343,095	89,211,533	34,543
Accrued Compensated Absences	-	3,723,528	-	-	773,367	-	-
Accrued Public Liability and Workers Compensation	-	263,306	-	-	-	-	-
Total Liabilities	84,765	7,559,478	194,220,961	51,782,835	27,469,481	92,515,806	1,695,924
NET ASSETS:							
Invested in Capital Assets, Net of Related Debt	-	13,885,064	33,076,820	-	122,227,552	-	5,255,490
Restricted for:							
Restricted (Non-Expendable)	-	7,841,953	-	-	417,123	5,982,951	-
Capital Projects	27,199	-	1,622,333	22,890,567	-	-	904,735
Debt Service	-	-	1,447,780	-	-	22,798,445	-
Unrestricted (Deficit)	43,421	14,361,263	-	185,269	3,936,913	(91,401,533)	(955,275)
Total Net Assets (Deficit)	$ 70,620	$ 36,088,280	$ 36,146,933	$ 23,075,836	$ 126,581,588	$ (62,620,137)	$ 5,204,950

The accompanying notes are an integral part of the financial statements.

Detroit Public Schools	Tax Increment Finance Authority	Detroit Transportation Corporation	Greater Detroit Resource Recovery Authority	Totals
$ 8,903,480	$ -	$ 248,969	$ -	$ 20,226,370
-	-	-	-	52,444,684
82,612,840	-	4,469,933	-	228,646,426
			-	
-	-	5,526,824	-	17,484,652
275,287,381	-	2,770,917	-	293,347,265
5,139,584	-	429,012	6,764,908	22,559,640
280,426,965	-	8,726,753	6,764,908	333,391,557
-	-	-	-	(7,392,755)
280,426,965	-	8,726,753	6,764,908	325,998,802
5,185,267	-	2,826,498	-	11,355,046
-	-	751,260	3,219,056	4,561,167
73,891,226	-	-	-	79,450,961
-	-	-	-	68,642,830
-	-	-	-	312,612
-	-	-	1,731,875	5,363,814
-	-	-	4,959,622	6,767,131
-	-	-	-	1,589,973
512,856,242	-	8,637,382	176,790,525	732,870,459
55,427,603	-	5,122,237	8,873,234	93,459,616
-	-	1,986,000	-	3,216,175
1,282,546,054	-	197,657,785	513,623,297	2,333,223,488
432,500,072	-	5,565,185	-	462,007,448
(415,432,011)	-	(128,170,937)	(172,504,729)	(930,268,011)
1,355,041,718	-	82,160,270	349,991,802	1,961,638,716
-	-	-	-	10,204,920
-	-	-	1,719,417	1,719,417
2,318,917,738	-	107,821,065	545,177,205	3,511,793,328
99,496,747	-	1,602,781	11,970,108	167,492,022
14,680,116	-	-	1,405,482	23,770,338
-	-	67,149	15,647,690	21,607,800
-	-	-	-	358,205
91,520,268	-	429,341	-	93,017,407
5,668,253	-	3,004,250	-	9,810,804
1,192,267	-	3,351,942	-	15,414,818
265,734,805	-	-	-	265,734,805
43,208,483	-	-	49,105,000	107,090,400
5,440,823	-	-	-	5,370,520
48,649,306	-	-	49,105,000	112,460,920
2,325,877	-	-	-	2,803,205
-	-	-	-	324,506
1,500,342,500	-	-	420,081,864	2,195,542,696
40,264,803	-	-	(4,852,180)	33,919,892
1,540,607,303	-	-	415,229,684	2,229,462,588
145,366,807	-	210,881	-	150,074,583
56,401,699	-	-	-	56,665,005
2,271,643,448	-	8,666,344	493,357,964	3,148,997,006
228,472,107	-	82,160,270	56,523,425	541,600,728
-	-	-	-	14,242,027
-	-	5,637,382	-	31,082,216
4,699,713	-	-	(4,704,184)	24,241,754
(185,897,530)	-	11,357,069	-	(248,370,403)
$ 47,274,290	$ -	$ 99,154,721	$ 51,819,241	$ 362,796,322

City of Detroit, Michigan
STATEMENT OF ACTIVITIES
COMPONENT UNITS
For the Year Ended June 30, 2004

	Brownfield Redevelopment Authority	Detroit Public Library	Downtown Development Authority	Economic Development Corporation	Detroit Housing Commission
Expenses	$ (200,328)	$ (37,989,764)	$ (62,463,896)	$ (12,227,756)	$ (66,240,398)
Program Revenues:					
Charges for Services	139,463	304,294	11,095,995	17,123,677	69,036,445
Operating Grants and Contributions	104,070	5,712,417	-	-	-
Total Program Revenues	243,533	6,016,711	11,095,995	17,123,677	69,036,445
Net Program (Expenses) Revenue	43,205	(31,973,053)	(51,367,901)	4,895,921	2,796,047
General Revenues:					
Property Taxes - Levied for General Purposes	27,199	30,335,182	29,101,165	-	-
Property Taxes - Levied for Debt Service	-	-	-	-	-
Investment Income	-	193,781	-	1,995	184,916
Interest and Penalities on Taxes	216	1,108,483	-	-	-
Shared Taxes	-	2,743,305	-	-	-
Other Taxes and Assessments	-	1,332,596	-	-	-
Other Non Operating	-	1,394,768	674,622	300,000	15,437,432
General Revenues	27,415	37,108,115	29,775,787	301,995	15,622,348
Change in Net Assets	70,620	5,135,062	(21,592,114)	5,197,916	18,418,395
Net Assets(Deficit) - Beginning of Year, as Restated	-	30,953,218	57,739,047	17,877,920	108,163,193
Net Assets (Deficit) - End of Year	$ 70,620	$ 36,088,280	$ 36,146,933	$ 23,075,836	$ 126,581,588

The accompanying notes are an integral part of the financial statements.

Local Development Finance Authority	Museum of African American History	Detroit Public Schools	Tax Increment Finance Authority	Detroit Transportation Corporation	Greater Detroit Resource Recovery Authority	Totals
$ (14,513,509)	$ (6,834,923)	$ (1,777,402,877)	$ (11,636,682)	$ (18,881,512)	$ (116,723,107)	$ (2,125,114,752)
-	1,583,936	7,580,249	-	367,012	43,792,111	151,023,182
6,950,000	5,075,412	525,155,465	-	9,621,165	71,146,881	623,765,410
6,950,000	6,659,348	532,735,714	-	9,988,177	114,938,992	774,788,592
(7,563,509)	(175,575)	(1,244,667,163)	(11,636,682)	(8,893,335)	(1,784,115)	(1,350,326,160)
8,438,775	-	76,978,512	11,636,682	-	-	156,517,515
-	-	104,758,050	-	-	-	104,758,050
178,830	5,290	7,896,070	-	4,664	1,364,866	9,830,412
-	-	-	-	-	-	1,108,699
-	-	932,399,129	-	-	-	935,142,434
315,822	-	10,675,608	-	-	-	12,324,026
-	3,357,051	-	-	4,812,141	-	25,976,014
8,933,427	3,362,341	1,132,707,369	11,636,682	4,816,805	1,364,866	1,245,657,150
1,369,918	3,186,766	(111,959,794)	-	(4,076,530)	(419,249)	(104,669,010)
(63,990,055)	2,018,184	159,234,084	-	103,231,251	52,238,490	467,465,332
$ (62,620,137)	$ 5,204,950	$ 47,274,290	$ -	$ 99,154,721	$ 51,819,241	$ 362,796,322

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NOTES

TO BASIC

FINANCIAL

STATEMENTS

NOTE I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Detroit (the City), incorporated in 1806, is a home rule city under State law. The City is organized into two separate branches: (1) the executive branch, which is headed by the Mayor, and (2) the legislative branch, which is composed of the City Council and its agencies. Other agencies (City Clerk and Election) are not classified under the two branches. The City provides the following services as authorized by its charter: public protection, public works, recreation and culture, health, economic development, public lighting, transportation, water and sewage, airport, and parking.

A. REPORTING ENTITY

As required by Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity,* the financial statements of the reporting entity include those of the City (the primary government) and its component units. Component units are legally separate organizations for which the elected officials of the City are financially accountable, or the relationship to the City is such that exclusion would cause the City's financial statements to be misleading or incomplete. The twelve component units discussed below are included in the City's reporting entity because of the significance of their operational or financial relationships with the City.

1. Blended Component Unit:

Detroit Building Authority (DBA): The City of Detroit Building Authority (DBA) is included in the operations and activities of the City because it was incorporated for the purpose of acquiring, furnishing, equipping, owning, improving, enlarging, operating, or maintaining a building or buildings (including but not limited to health and public safety facilities), automobile parking lots or structures (independently or adjunct to other buildings), recreational facilities, and the necessary site or sites, together with appurtenant properties and facilities necessary or convenient for the effective use thereof, all for the use of any legitimate public purpose of the City. Financing is provided by the issuance of bonds secured by lease agreements with the City and from grants received by the City.

2. Discretely Presented Component Units:

Component units, which are not blended as part of the primary government, are discretely presented by reporting component unit financial data in a column separate from the financial data of the primary government. These units are reported in a separate column to emphasize that they are legally separate from the City. The component units presented in this manner are the following:

Detroit Public Library (DPL): The DPL is a statutory body created by the State of Michigan. The DPL was created to provide reference materials, research information, and publications to residents of the City and the County. Funding is provided by an ad valorem tax of 3.63 mills in real and personal property taxes in the City. In addition, DPL receives grants and endowments from private organizations. City Council is responsible for approving DPL's annual budget.

Detroit Housing Commission (DHC): The DHC was established in 1933 under the authority of the Housing Facilities Act, 1933 PA18 (Ex. Sess), MCL 125.651 et.seq. Section 2 of the act provided that any city or incorporated village with population of over 500,000 was authorized "to purchase, acquire, construct, maintain, operate, improve, extend, and/or repair housing facilities and to eliminate housing conditions which are detrimental to the public peace, health, safety, morals, and/or welfare."

Effective July 1, 2003 the Michigan Supreme Court determined that the DHC is a separate legal entity from the City. The Commission is governed by a five (5) member board appointed by the Mayor. A change in the City's reporting entity regarding the DHC is discussed in footnote I-C.

Downtown Development Authority (DDA): The DDA was created to promote and develop economic growth in the City's downtown business district. Funding is provided by an ad valorem tax of 1.0 mill on real and personal

property in the downtown development district, a levy on the increased assessed value of a tax increment district, and issuance of revenue and tax increment bonds.

Economic Development Corporation (EDC): The EDC was established to create and implement project plans for designated project areas within the City, and thus encourage the location and expansion of industrial and commercial enterprises within the City. The EDC is primarily funded by means of grants from the City.

Local Development Finance Authority (LDFA): The LDFA was created to finance certain improvements for local public roads in the vicinity of the Chrysler Jefferson Avenue Assembly Plant. Incremental portions of the City and the County of Wayne (the County) property taxes fund LDFA.

Museum of African American History (MAAH): The MAAH was created to provide research, compilation, presentation, publication, and dissemination of knowledge relating to the history, growth, development, heritage, and culture of people of African descent and the human struggle for freedom. The MAAH is primarily funded by means of private grants and grants from the City.

School District of the City of Detroit (the District): The District is a statutory body created by the State of Michigan and functions under the provisions of the Michigan School Code. Funding is provided by an ad valorem tax of 13.19 mills (homestead properties) and 31.19 mills (non-homestead) on real and personal property in the City and a "foundation allowance" provided by the State of Michigan.

Detroit Brownfield Redevelopment Authority (DBRA): The City of Detroit Brownfield Redevelopment Authority was created by a Detroit City Council resolution dated April 23, 1998, and approved by the Mayor of the City of Detroit on April 30, 1998, under the provisions of Act 381, Public Acts of Michigan of 1996. DBRA was established to create Brownfield redevelopment zones and promote the revitalization, redevelopment, and reuse of certain property, including, but not limited to, tax-reverted, blighted, or functionally obsolete property. This is the first year of substantial financial activity for this authority.

Tax Increment Finance Authority (TIFA): The TIFA was created to acquire property and provide financing for industrial development programs through issuance of long-term debt secured by a tax increment financing plan.

Detroit Transportation Corporation (DTC): The DTC was established in 1985 to oversee construction and operation of the Central Automated Transit System (People Mover) in downtown Detroit. The DTC is primarily funded by means of grants from the City.

Greater Detroit Resource Recovery Authority (GDRRA): The GDRRA was established by the cities of Detroit and Highland Park for the acquisition, construction, and operation of a waste-to-energy facility. The financing was provided by the issuance of revenue bonds.

Complete financial statements of the individual component units can be obtained directly from the following administrative offices:

Downtown Development Authority
211 West Fort Street, Suite 900
Detroit, MI 48226
(313) 963-2940

Local Development Finance Authority
211 West Fort Street, Suite 900
Detroit, MI 48226
(313) 963-2940

Economic Development Corporation
211 West Fort Street, Suite 900
Detroit, MI 48226
(313) 963-2940

Museum of African American History
315 East Warren Avenue
Detroit, MI 48201
(313) 494-5800

School District of the City of Detroit
3011 West Grand Blvd.
11th Floor
Detroit, MI 48202
(313) 873-4147

Brownfield Redevelopment Authority
500 Griswold, Suite 2200
Detroit, Michigan 48226
(313) 237-4616

Tax Increment Finance Authority
211 West Fort Street Avenue, Suite 900
Detroit, MI 48226
(313) 963-2940

Detroit Public Library
5201 Woodward Avenue
Detroit, MI 43202
(313) 833-1000

Detroit Housing Commission
2211 Orleans Street
Detroit, Michigan 48207
(313) 877-8557

Detroit Transportation Corporation
1420 Washington Blvd., 3rd Floor
Detroit, MI 48226
(313) 224-2160

Greater Detroit Resource Recovery Authority
5700 Russell Street
Detroit, MI 48211
(313) 876-0449

B. JOINT VENTURE

A joint venture is a legal entity or other organization that results from a contractual agreement and that is owned, operated or governed by two or more participants as a separate and specific activity, subject to joint control in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility. The City participates in the following joint venture:

The Detroit-Wayne Joint Building Authority (DWJBA) was created as a corporate instrumentality in 1948 by agreement between the City and the County. All revenues or other monies received by the DWJBA must be disbursed for specific purposes in accordance with agreements with the incorporating units and the holders of the bonds. In March 1988, the City and County agreed to a consent judgment whereby the County's equity in the ownership of a portion of the space in the Coleman A. Young Municipal Center was transferred to the City. As a result, the fixed asset costs are recorded within the City's government-wide financial statements.

The DWJBA is party to a lease agreement that extends to March 1, 2028 for rental of the Coleman A. Young Municipal Center to the City and the County. The lease provides that the DWJBA shall maintain and operate the building, the expenditures of which are to be reimbursed by the City and County on the basis of the building space allocations specified in the lease.

Complete financial statements of the DWJBA may be obtained by writing the DWJBA at the following address:

Detroit-Wayne Joint Building Authority
1316 Coleman A. Young Municipal Center (CAYMC)
Detroit, MI 48226

C. CHANGE IN REPORTING ENTITY

Effective July 1, 2003, in accordance with the Michigan Supreme Court determination that the Detroit Housing Commission (DHC) is legally separate from the City, the DHC is being reported as a discretely presented component unit in accordance with the provisions of Government Accounting Standards Board (GASB) Statement No. 14, *The Reporting Entity*. In previous years, the DHC has been reported as a non-major proprietary fund of the City.

As a result of implementing this change, the beginning net assets have been restated as follows:

	Proprietary Funds	Component Units
Net Assets - Beginning of Year	$ 1,590,760,874	$ 359,302,139
Restatement	(108,163,193)	108,163,193
Net Assets - Beginning of Year, as Restated	$ 1,482,597,681	$ 467,465,332

D. BASIS OF PRESENTATION

The basic financial statements include both government-wide and fund financial statements.

1. Government-wide Financial Statements

The government-wide statement of net assets and statement of activities report the overall financial activity of the primary government (the City), excluding fiduciary activities, and its component units. Eliminations have been made to minimize the double-counting of internal activities of the City. These statements distinguish between the governmental and business-type activities of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs, and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

2. Fund Financial Statements

The fund financial statements provide information about the City's funds, including its fiduciary fund types. Separate statements for each fund category? governmental, proprietary, and fiduciary? are presented. The emphasis on fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

The following major funds are used by the City:

Governmental Funds:

a. **General Fund** accounts for several of the City's primary services (Police, Fire, Public Works, Community and Youth Services, etc.) and is the primary operating unit of the City.

Proprietary Funds:

a. **Sewage Disposal Fund** accounts for the operations of the wastewater treatment plant; sewers, including sanitary and combined sewers; combined sewer outfalls; and interceptors. The facility provides service to Detroit and 75 other communities in southeastern Michigan.

b. **Transportation Fund** accounts for the City's mass transit system with a fleet of over 572 coaches. The fund operates three light repair garages and terminals.

c. **Water Fund** accounts for the operations of 5 water treatment plants, 20 booster stations, and reservoirs. The fund provides service to Detroit and 125 other communities in southeastern Michigan.

d. **Automobile Parking Fund** accounts for the activity of the City's Auto Parking and Arena System, but does not include parking fine revenues.

Fiduciary Fund Types

The City additionally reports the following pension and other employee benefit funds:

a. **Retirement Systems** – accounts for contributions received, invested, and expended for the General Retirement System and the Policemen and Firemen Retirement System.

b. **Employee Benefit Fund** – accounts for the health, dental, life insurance, and eye care of City employees and retirees.

c. **Employee Disability Income Protection Plan** – accounts for long-term disability benefits of employees who become disabled and are not yet eligible for service requirements. The plan provides monthly income, hospitalization insurance, and life insurance.

Agency Funds

These funds account for assets that the City holds for others in an agency capacity

E. BASIS OF ACCOUNTING

The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flow takes place. Non-exchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include income taxes, sales taxes, property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year in which the taxes are levied. Revenue from self-assessed taxes, including income taxes and sales tax, is recognized in the fiscal year in which the underlying exchange transaction occurs. Revenue from grants, entitlements, and similar items is recognized in the fiscal year in which all eligibility requirements imposed by the provider have been met.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal year, except for grants and trade receivables, which are 180 and 90 days, respectively. Expenditures generally are recorded when the liability is incurred, as under accrual accounting. However, principal and interest on general long-term debt, claims and judgments, and compensated absences are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources. Significant revenue sources which are susceptible to accrual include property taxes, income taxes, utility taxes, and interest. All other revenue sources are considered to be measurable and available only when cash is received.

Financial Accounting Standards Board (FASB) Statements and Interpretations, APB opinions and ARB'S of the Committee on Accounting Procedure issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The City also has the option of following subsequent FASB guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent FASB guidance.

F. BUDGETARY DATA

Budgeting Policy:

The City's annual budget constitutes a financial plan for the next fiscal year, which is required to set forth estimated revenues from all sources and all appropriations. Proposed capital appropriations are included in separate sections of the budget. Any surplus or deficit during the preceding year is entered into the budget for the next fiscal year as either revenue (surplus) or appropriation (deficit), in accordance with the City Charter. The total of proposed expenditures cannot exceed the total of estimated revenues, so that the budget as submitted is a balanced budget. Budgets are prepared for all agencies of the City.

On or before April 12 each year, the Mayor submits to the City Council a proposed annual budget for the next fiscal year. A public hearing in the manner provided by law or ordinance is held on the proposed budget before adoption. After the public hearing, the City Council adopts the budget with or without amendment. Consideration of the budget is completed by the City Council no later than May 15. If the Mayor disapproves of amendments made by the City Council, the Mayor, within seven days, submits to the City Council in writing the reasons for the disapproval. The City Council proceeds to reconsider any budget item so disapproved. If, after reconsideration, a two-thirds majority of the City Council serving agrees to sustain any of the City Council's amendments to the budget, those amendments so sustained are of full force and effect. The City Council's reconsideration of the budget must be concluded within three business days after receipt of the Mayor's disapproval.

The adoption of the budget provides for: (1) appropriations of specific amounts from funds indicated, (2) a specific levy of property tax, and (3) provision for the issuance of bonds specified in the capital program. The budget as adopted becomes the basis for establishing revenues and expenditures for the fiscal year. The appropriations for the functions of each City department are fixed. Expenditures may not exceed the original appropriations without City Council approval. If during the fiscal year the Mayor advises the City Council that there are available appropriations and revenues in excess of those estimated in the budget, the City Council may make supplemental appropriations for the year up to the amount of the excess. In the case of estimated revenue shortfalls, the Mayor may request that the City Council decrease certain appropriations. In any case, the Mayor is under no obligation to spend an entire appropriation. Also, at any time during the fiscal year, the City Council, upon written request by the Mayor, may transfer all or part of any unencumbered appropriation balance among programs, services, or activities within an agency or from one agency to another.

G. ASSETS, LIABILITIES, AND FUND EQUITY

1. **Cash and Investments:** Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Investments are reported at fair value based on quoted market prices.

2. **Interfund Transactions:**

   The City has the following types of interfund transactions:

   a. **Loans** – amounts provided with a requirement for repayment. Interfund loans are reported as due from other funds in lender funds and due to other funds in borrower funds.

   b. **Services provided and used** – sales and purchases of goods and services between funds for a price approximating their external exchange value. Interfund services provided and used are reported as revenues in seller funds and expenditures or expenses in purchaser funds. Unpaid amounts are reported as interfund receivables and payables in the fund balance sheets or fund statements of net assets.

c. **Reimbursements** – repayments from the funds responsible for particular expenditures or expenses to the funds that initially paid for them. Reimbursements are reported as expenditures in the reimbursing fund and as a reduction of expenditures in the reimbursed fund.

d. **Transfers** – flows of assets (such as cash or goods) without equivalent flows of assets in return and without a requirement for repayment. In governmental funds, transfers are reported as other financing uses in the funds making transfers and as other financing sources in the funds receiving transfers. In proprietary funds, transfers are reported after non-operating revenues and expenses.

3. **Inventories:** Cost of inventories of the governmental-type funds is recorded as expenditures at the time of purchase. Inventories at year-end for the General, Construction Code, Drug Law Enforcement Fund, and Major and Local Street funds are recorded in the balance sheet at cost or market, whichever is lower, based on a physical inventory, with a reserve for inventories in fund balance by the related fund. Inventories of the Enterprise Funds are stated at the lower of cost or market and expensed when used.

4. **Capital Assets:** Capital assets, which include land, buildings, improvements, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets purchased or acquired are reported at historical cost or estimated historical cost. Donated assets are recorded at fair market value as of the date received. The City's capitalization levels are $5,000 on tangible personal property and for improvements other than buildings, and $50,000 on infrastructure, including sewer and stormwater lines. All acquisitions of land and land improvements will be capitalized regardless of cost. Interest incurred during the construction phase of capital assets of business-type activities is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period. Capitalized interest, net of related debt, for the year ended June 30, 2004 for the Sewage Disposal and Water Funds was $50,451,250 and $26,713,603 respectively. Costs of assets sold or retired (and related amounts of accumulated depreciation) are eliminated from the accounts in the year of sale or retirement, and the resulting gain or loss is included in the operating statement of the related fund. In governmental funds, the sale of general capital assets is included in the statement of revenues, expenditures, and changes in fund balances as proceeds from sale. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

	Years
Land improvements	5 – 20
Buildings and building improvements	5 – 50
Improvements other than buildings	5 – 50
Machinery and equipment	5 – 20
Vehicles other than buses	3 – 10
Buses	12
Stormwater and wastewater lines and pump stations	10 – 65
Other infrastructure	7 – 60

The City has a collection of artwork presented both in buildings and public outdoor spaces. The true value of the art is expected to either be maintained or enhanced over time, and thus, the art is not depreciated. If individual pieces are lost or destroyed, the loss is recorded.

5. **Bond Premiums, Discounts, and Issuance Costs:** In the government-wide and proprietary fund financial statements, bond premiums and discounts, as well as issuance costs are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount and gains (losses) on defeasance. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums or discounts and gains or losses on defeasance, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums on debt issuances are reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

6. **Encumbrances:** Encumbrances outstanding for governmental funds at year-end do not represent GAAP expenditures or liabilities, but represent budgetary accounting controls. All governmental fund budgets are maintained on the modified accrual basis of accounting, except that budgetary-basis expenditures include purchase orders and contracts (encumbrances) issued for goods or services not received at year-end.

7. **Compensated Absences:** For funds other than the Transportation Fund, unused vacation pay and banked overtime accumulate up to a maximum level until termination of employment, while there is no vesting of sick pay until an employee reaches age 60 or completes 25 years of service. Furlough time is awarded to uniformed police and fire employees at the beginning of two semi-annual periods. Any unused furlough time remaining at the end of each semi-annual period is forfeited. For the Transportation Fund, unused vacation pay accumulates for each employee up to a maximum level. Once this level is attained, unused vacation must be used or the employee loses a portion of the vacation pay.

   The liability for compensated absences reported in the government-wide and proprietary fund statements consists of unpaid, accumulated vacation and sick leave balances. A liability for these amounts is reported in governmental funds only if they have matured.

8. **Property Taxes:** The Constitution of the State of Michigan limits the proportion of true cash value at which real property can be uniformly assessed to 50%. The Michigan Constitution also mandates a system of equalization for assessments. Although the assessors for each local unit of government are responsible for actually assessing at 50% of true cash value, the final State equalized assessment against which local property tax rates are applied is derived through several steps. County equalization is brought about by adjustments of the various local unit assessment ratios to the same level; then the State equalizes the various counties in relation to each other. State equalized values are important; aside from their use for local property tax levy purposes, because of their role in distribution of State school aid and in the calculation of debt limits. The only major items of personal property subject to property taxation in the City are commercial and industrial furniture, fixtures, and equipment. Though comprehensive authority is granted by the State to Michigan municipalities for governmental purposes, the Constitution and general laws of the State limit the municipal rate of taxation and restrict the amount of debt a municipality may incur. At the present time, the general ad valorem taxing power of the City is generally limited by State law and the City Charter to 20 mills. The City is levying at its current maximum rate limit. In addition, the City is authorized to levy additional taxes within specified amounts for specific purposes under specific legislation. At the present time, under such an authorization, the City is levying 3 additional mills for the purpose of garbage and rubbish collection. These millage limitations, however, do not apply to taxes levied by the City for payment of principal and interest on presently outstanding unlimited tax-supported bonds, nor do they apply to payment of principal and interest on tax-supported bonds issued in anticipation of presently outstanding contractual obligations of the City or presently outstanding assessments in the City.

   The City's property tax is levied each July 1 of the fiscal year and is payable without penalty either on or before August 31 in full, or one-half on or before August 15, with the balance then being payable on or before the following January 15. Property taxes attach as a lien on the property as of July 1 of the year of levy. Property owners may appeal their assessments to the local Board of Review and ultimately to the Michigan Tax Tribunal.

   In the government-wide financial statements, property tax revenue is recorded in the period in which the tax is levied. In the governmental fund financial statements, the City records property tax revenue when available. Available is defined as due and receivable within the current fiscal year and collected within the current fiscal year or expected to be collected within 60 days thereafter.

9. **Municipal Income Taxes:** The City levies an annual income tax. The rate for the calendar year 2004 consists of an annualized tax of 2.50% on the income of resident individuals, 1.25% on income earned in the City by

non-residents and for corporations, the annual rate for 2004 is 1.0%. These rates are being lowered over a 10-year period starting July 1, 1999. The resident rate will decrease by 1/10 of a percentage point, the non-resident rate by 1/20 of a percentage point, and the corporate rate by 2/10 of a percentage point over the same period. After the 10-year period, the calendar 2009 resident rate will be 2%, the non-resident rate will be 1%, and the corporate rate will be zero. However, due to current economic conditions there was a temporary rate freeze of the tax rates for the calendar year 2004. The rates were as follows: Residents 2.5%, Non-Residents 1.25% and Corporations 1%. The City has re-applied for, and received, approval for the rate freeze to remain in effect for calendar year 2005. Municipal income taxes are accrued for income tax withholdings collected by employers but not yet remitted to the City. In the government-wide financial statements, income tax revenue is recorded in the period in which the underlying compensation is earned by the taxpayer. In the governmental fund financial statements, the City records municipal income tax revenues when they become available. Available is defined as due and receivable within the current fiscal year or expected to be collected within 60 days thereafter. Estimated refunds for income tax returns received and in process, in which payment has not been made, are recorded as a reduction of revenues. Income tax assessment receivable represents estimated additional taxes assessed as a result of tax return audits or failure to file a return.

10. **Fund Balances**: In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for specific purposes. Designations of fund balances represent tentative City plans that are subject to change.

11. **Net Assets:** The government-wide and business-type financial statements utilize a net asset presentation. Net assets are categorized as follows:

    a. **Invested in Capital Assets (Net of Related Debt)** – consists of capital assets, net of accumulated depreciation. The outstanding balances of bonds, mortgages, notes, or other borrowing that are attributable to the acquisition, construction, or improvement of those assets would further reduce this component. If there were significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds would be offset by the outstanding debt.

    b. **Restricted Assets** – consist of constraints placed on net asset use through external constraints imposed by grantors, contributors, or laws. When both restricted and unrestricted resources are available, generally it is the City's policy to use restricted resources first, and then unrestricted resources, when they are needed.

    c. **Unrestricted Assets** – Consist of net assets that do not meet the definition of "Restricted" or "Invested in Capital Assets, net of related debt".

12. **Use of Estimates:** The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

13. **New Accounting Pronouncements:** In March 2003, the Governmental Accounting Standards Board (GASB) issued Statement No. 40, *Deposit and Investment Risk Disclosures, an amendment of GASB Statement No. 3.* This statement will revise the deposit and investment risk disclosed in the notes to the financial statements. The City will implement Statement No. 40 beginning with the year ended June 30, 2005.

    In November 2003, GASB issued Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries.* This Statement establishes accounting and financial reporting standards for impairment of capital assets. The City will implement Statement No. 42 beginning with the year ended June 30, 2006. The City is currently evaluating the impact of adopting Statement No. 42.

In July 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.* This Statement establishes accounting and financial reporting standards for employers that participate in a defined benefit "other postemployment benefit" (OPEB) plan. Specifically, the City will be required to measure and disclose an amount for annual OPEB cost on the accrual basis for health and insurance benefits that will be provided to retired City employees in future years. The City is also required to record a net OPEB obligation which is defined as the cumulative difference between annual OPEB cost and the employers contributions to a plan., including the OPEB liability or asset at transition, if any. The City is currently evaluating the impact that this standard will have on the financial statements when adopted. The City will implement Statement No. 45 beginning with the year ended June 30, 2008.

NOTE II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. COMPLIANCE WITH FINANCE-RELATED LEGAL AND CONTRACTUAL PROVISIONS

The City has no material violations of finance-related legal and contractual provisions.

B. EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN INDIVIDUAL FUNDS

For the year ended June 30, 2004, expenditures exceeded appropriations in the General Fund for the Arts Department by $569 and Historical Department by $73,863.

C. DEFICIT FUND EQUITY

The Detroit Building Authority (DBA) (a Non-Major Governmental Fund) had deficit fund equity of $367,767.

General Fund had an unreserved deficit of $95,032,523. The Construction Code Fund (a Non-Major Governmental Fund) had an unreserved deficit of $112,106. Transportation Fund and Automobile Parking Fund, (both enterprise funds), had unrestricted deficits of $13,954,723 and $6,439,078 respectively at June 30, 2004. Each fund has a deficit reduction plan, which includes, among other things, changes in the level of services provided, and additional subsidies from the General Fund.

NOTE III. DETAILED NOTES ON ALL FUNDS

A. ASSETS

1. **Deposits and Investments:** Cash deposits are in financial institutions insured as members of the FDIC or NCUA. Cash held by fiscal agents or by trustees is secured in accordance with the covenants of the agency or trust agreement. Cash deposits related to federally funded programs are accounted for in accordance with applicable federal regulations. At June 30, 2004, the City's carrying amount of deposits was $180,393,006 for governmental and business-type activities, and the bank balance was $106,251,296. Of the bank balance, $6,639,753 was covered by federal depository insurance. The remaining balances are not insured. At June 30, 2004, the fiduciary fund's carrying amount of deposits was $10,370,995 and the bank balance was $7,525,402. Of the bank balance, $431,768 was covered by federal depository insurance. The remaining balances are not insured. At June 30, 2004, the component units' carrying amount of deposits was $81,028,158 and the bank balance was $37,141,992. Of the bank balance, $1,279,206 was covered by federal depository insurance. The remaining balances are not insured.

	Governmental Activities	Business-type Activities	Fiduciary Funds	Total	Component Units
Deposits	$ 118,727,877	$ 61,665,129	$ 10,370,995	$ 190,764,001	$ 81,028,158
Investments	343,099,330	999,144,577	5,689,909,137	7,032,153,044	961,516,885
Total	$ 461,827,207	$ 1,060,809,706	$ 5,700,280,132	$ 7,222,917,045	$ 1,042,545,043

The City is authorized to invest in U.S. Government obligations, certificates of deposit, savings and depository accounts of insured institutions, commercial paper of certain investment qualify, bankers' acceptances, repurchase agreements, and mutual funds of certain investment qualify. In accordance with GASB Statement No. 3, the City's investments have been categorized to indicate the level of credit risk assumed by the City as follows: (1) insured or registered for which the securities are held by the City (or component unit as applicable) or its agent in the City's name, (2) uninsured and unregistered for which the securities are held by the broker's or dealer's trust department or agent in the City's (or component unit's) name, or (3) uninsured and unregistered for which the securities are held by the broker or dealer, or by its trust department or agent, but not in the City's name. Pooled investments are not subject to categorization because they are not securities. The relationship between the City and the investment agent is a direct contractual relationship, and the investments are not supported by a transferable instrument that evidences ownership or creditor ship.

The following are the City's investment balances at fair market value at June 30, 2004:

	Primary Government				
	Governmental Activities	Business-type Activities	Fiduciary Funds	Total	Category
Repurchase Agreements	$ 1,000,000	$ 88,254,160	$ —	$ 89,254,160	1
Certificate of Deposit	19,567,227	2,000,000	—	21,567,227	1
Commercial Paper	—	—	4,964,125	4,964,125	1
U.S. Government Securities	34,329,049	184,948,145	75,727	219,352,921	1
Bonds, Notes, and Stocks	98,560,000	—	4,133,187,361	4,231,747,361	1
Pooled Investments	189,643,054	548,990,407	505,321,620	1,243,955,081	N/A
Treasury Coupon Securities	—	174,951,865	—	174,951,865	1
Short-term Investments	—	—	153,642,872	153,642,872	1
Mortgage-backed Securities	—	—	395,680,856	395,680,856	2
Equity Intrest in Real Estate	—	—	166,362,111	166,362,111	N/A
Real Estate Investment Trusts	—	—	28,522,443	28,522,443	2
Private Placements	—	—	302,152,022	302,152,022	2
Total	$ 343,099,330	$ 999,144,577	$ 5,689,909,137	$ 7,032,153,044	

	Component Units	Category
Repurchase Agreements	$ 7,892,370	1
Certificates of Deposit	284,219	1
Commercial Paper	10,974,377	2
U.S. Government Securities	129,057,328	1
U.S. Government Securities	30,533,370	2
Bonds, Notes, and Stocks	37,720	1
Pooled Investments	10,373,751	N/A
Short-term Investments	772,363,750	1
Total	$ 961,516,885	

2. Other Receivables: Other receivables in the statement of net assets for governmental activities are shown in the aggregate. The following details the other receivable balance at June 30, 2004

	General	Other Governmental	Total
Estimated Withheld Income Tax Receivable	$ 26,684,072	$ —	$ 26,684,072
Trade Receivables	27,026,133	860,766	27,886,899
Land Contracts Receivable	6,224,469	—	6,224,469
Property Taxes	15,803,134	5,730,160	21,533,294
Income Taxes	40,250,167	—	40,250,167
Special Assessments	1,370,579	335,844	1,706,423
Interest and Penalties	5,530,000	2,000,000	7,530,000
Utility Users Tax	1,267,347	—	1,267,347
Due from Fudiciary Funds	4,495,129	—	4,495,129
Allowance for Doubtful Accounts	(75,446,071)	(452,744)	(75,898,815)
Total Other Receivables, Net	$ 53,204,959	$ 8,474,026	$ 61,678,985

3. **Due from/to Other Governmental Agencies:** Due from/to other governmental agencies consists primarily of sales and charges for services to/from the County, the State of Michigan, and the Federal Government.

4. **Interfund Receivables and Payables:** During the course of operations, numerous transactions occur between the City funds for goods provided and services rendered and for the reimbursement of expenditures. Related interfund receivables and payables are classified as "due from other funds" (due from fiduciary funds) and "due to other funds" (due to fiduciary funds) on the balance sheet and statement of net assets and are expected to be collected within one year. Interfund receivables and payables at June 30, 2004 are as follows:

	Due From								
	General Fund	Non-major Governmental Funds	Sewage Disposal Fund	Transportation Fund	Water Fund	Auto Parking Fund	Non-major Proprietary Funds	Fiduciary Funds	Total
Due to:									
General Fund	$ —	$ 14,830,630	$ 4,520,079	$ 14,447,670	$ 8,933,277	$ 1,006,415	$ 210,403	$ 4,495,129	$ 48,443,603
Non-major Governmental Funds	4,089,404	3,539,586	—	639,772	524,520	25,961	280,195	—	9,099,438
Water Fund	16,747,072	—	32,324,923	—	—	—	—	—	49,071,995
Transportation Fund	172,405	64,000	—	—	—	—	—	—	236,405
Sewage Disposal Fund	15,018,930	315,381	—	262,813	45,505,580	—	—	—	61,102,704
Automobile Parking Fund	756,257	23,209	—	—	—	—	132	—	779,598
Non-major Proprietary Funds	1,037,750	—	—	—	—	—	—	—	1,037,750
Fiduciary Funds	76,510,398	—	3,037,250	4,367,232	1,580,632	467,162	19,518	—	85,982,192
Total	$ 114,332,216	$ 18,772,806	$ 39,882,252	$ 19,717,487	$ 56,544,009	$ 1,499,538	$ 510,248	$ 4,495,129	$ 255,753,685

5. **Advances:** Advances represent interfund receivables and payables that will not be paid within one year. Advances between funds at June 30, 2004 are as follows:

Receivable Fund		Payable Fund		Amount
General	$ 3,557,000	Detroit Workforce Development Department (Non-Major Governmental Fund)	$	147,000
		Capital Projects Fund (Non Major Governmental Fund)		850,000
		Automobile Parking Funds		2,560,000
			$	3,557,000

6. **Transfers:** During the course of operations transactions occur between the City funds for operating subsidies. Related interfund receipts and disbursements are classified as "transfers in" and "transfers out" on the statement of revenues, expenditures/expenses, and changes in fund balance/net assets. The transfers are routine and consistent with the activities of the funds. Transfers between funds at June 30, 2004 are as follows:

	Tranfers In				
	General Fund	Non-major Governmental Funds	Transportation Fund	Non-major Proprietary Funds	Total
Transfers Out					
General Fund	$ —	$ 61,275,398	$ 74,318,857	$ 2,789,179	$ 138,383,434
Non-Major Governmental Funds	31,638,974	69,769,170	—	—	101,408,144
Total	$ 31,638,974	$ 131,044,568	$ 74,318,857	$ 2,789,179	$ 239,791,578

The General Fund transferred $138,383,434 to other funds. The largest transfer was made to the Transportation Fund for $74.3 million to maintain bus operations. The General Fund also transferred $51.3 million to the Debt Service Fund for principal and interest payments.

The Non-Major Governmental Funds transferred $101,408,144 to other funds. The Capital Projects Fund transferred $36.9 million to the Debt Service Fund to be reserved for the Cobo Hall debt service payments. The Major and Local Street Fund transferred 31.3 million to the General Fund to reimburse General Fund for street construction costs.

7. Capital Asset Activity for the Year Ended June 30, 2004:

	Primary Government			
	Beginning Balance	Additions	Retirements	Ending Balance
Governmental Activities:				
Non-Depreciable Assets:				
Land	$ 314,539,283	$ 40,972,291	$ -	$ 355,511,574
Works of Arts	29,845,410	-	(57,277)	29,788,133
Construction in Progress	250,633,701	54,424,883	(151,951,627)	153,106,957
Total Non-Depreciable Assets	595,018,394	95,397,174	(152,008,904)	538,406,664
Depreciable Assets:				
Buildings and Improvements	559,034,156	139,126,810	-	698,160,966
Machinery and Equipment	361,521,380	29,483,501	(13,155,962)	377,848,919
Infrastructure	725,857,460	41,479,457	-	767,336,917
Total Depreciable Assets	1,646,412,996	210,089,768	(13,155,962)	1,843,346,802
Less Accumulated Depreciation for :				
Buildings and Improvements	232,144,970	31,180,429	-	263,325,399
Machinery and Equipment	287,457,105	22,748,545	(12,761,489)	297,444,161
Infrastructure	605,313,699	21,620,402	-	626,934,101
Total Accumulated Depreciation	1,124,915,774	75,549,376	(12,761,489)	1,187,703,661
Governmental Activities Capital Assets, Net	$ 1,116,515,616	$ 229,937,566	$ (152,403,377)	$ 1,194,049,805

Depreciation Expense was charged to the Governmental functions as follows:

Public Protection	$ 14,380,171
Health	300,252
Education	75,945
Recreation and Culture	8,379,106
Economic Development	6,408,025
Housing Supply and Condition	40,131
Physical Environment	34,964,239
Development and Management	11,001,507
Total:	$ 75,549,376

Business-type Activities:

Major Funds:	Beginning Balance	Increase	Decrease	Ending Balance
Sewage Disposal Fund:				
Non-Depreciable Assets:				
Land and Land Rights	$ 13,825,671	$ 51,080	$ -	$ 13,876,751
Construction in Progress	887,576,854	399,832,718	(83,671,494)	1,203,738,078
Total Non-Depreciable Assets	901,402,525	399,883,798	(83,671,494)	1,217,614,829
Depreciable Assets:				
Buildings and Structures	805,223,844	291,326,004	(205,060,993)	891,488,855
Sewer Lines	536,209,238	207,094,417	(210,847,905)	532,455,750
Machinery, Equipment and Fixtures	573,013,498	174,279,862	(175,197,989)	572,095,371
Total Depreciable Assets	1,914,446,580	672,700,283	(591,106,887)	1,996,039,976
Total Capital Assets	2,815,849,105	1,072,584,081	(674,778,381)	3,213,654,805
Less Accumulated Depreciation:				
Buildings and Structures	204,774,326	25,581,388	(2,476,901)	227,878,813
Sewer Lines	90,595,281	6,471,400	(788,490)	96,278,191
Machinery, Equipment and Fixtures	294,062,135	29,736,930	(10,385,034)	313,414,031
Total Accumulated Depreciation	589,431,742	61,789,718	(13,650,425)	637,571,035
Net Capital Assets	$ 2,226,417,363	$ 1,010,794,363	$ (661,127,956)	$ 2,576,083,770
Transportation Fund:				
Non-Depreciable Assets:				
Land and Land Rights	$ 4,114,574	$ -	$ -	$ 4,114,574
Construction in Progress	15,075,092	3,540,006	(13,915,222)	4,699,876
Total Non-Depreciable Assets	19,189,666	3,540,006	(13,915,222)	8,814,450
Depreciable Assets:				
Buildings and Structures	65,487,188	11,275	-	65,498,463
Machinery, Equipment and Fixtures	32,603,653	15,885,987	-	48,489,640
Vehicle and Buses	126,064,318	23,911,071	(1,004,840)	148,970,549
Total Depreciable Assets	224,155,159	39,808,333	(1,004,840)	262,958,652
Total Capital Assets	243,344,825	43,348,339	(14,920,062)	271,773,102
Less Accumulated Depreciation:				
Buildings and Structures	44,727,463	1,036,711	-	45,764,174
Machinery, Equipment and Fixtures	26,192,166	2,648,694	-	28,840,860
Vehicle and Buses	56,974,971	10,711,896	(1,004,840)	66,682,027
Total Accumulated Depreciation	127,894,600	14,397,301	(1,004,840)	141,287,061
Net Capital Assets	$ 115,450,225	$ 28,951,038	$ (13,915,222)	$ 130,486,041

Business-type Activities (continued)

	Beginning Balance	Increase	Decrease	Ending Balance
Water Fund:				
Non-Depreciable Assets:				
Land and Land Rights	$ 6,358,342	$ 169,096	$ -	$ 6,527,438
Construction in Progress	608,364,217	157,981,415	(86,600,245)	679,745,387
Total Non-Depreciable Assets	614,722,559	158,150,511	(86,600,245)	686,272,825
Depreciable Assets:				
Land Improvements	91,118,140	5,993,232	(277,215)	96,834,157
Buildings and Structures	431,915,880	178,585,147	(157,094,875)	453,406,152
Water lines	672,467,862	96,046,142	(79,456,457)	689,057,547
Machinery, Equipment and Fixtures	432,868,661	159,833,248	(99,919,419)	492,782,490
Total Depreciable Assets	1,628,370,543	440,457,769	(336,747,966)	1,732,080,346
Total Capital Assets	2,243,093,102	598,608,280	(423,348,211)	2,418,353,171
Less Accumulated Depreciation:				
Land Improvements	53,634,642	1,946,527	(6,901)	55,574,268
Buildings and Structures	164,802,582	8,207,491	(681,968)	172,328,105
Water Lines	236,142,033	10,435,804	(473,704)	246,104,133
Machinery, Equipment and Fixtures	155,388,494	23,331,360	(5,073,615)	173,646,239
Total Accumulated Depreciation	609,967,751	43,921,182	(6,236,188)	647,652,745
Net Capital Assets	$ 1,633,125,351	$ 554,687,098	$ (417,112,023)	$ 1,770,700,426
Automobile Parking Fund:				
Non-Depreciable Assets:				
Land and Land Rights	$ 7,014,114	$ -	$ -	$ 7,014,114
Construction in Progress	52,191,196	868,734	(47,201,874)	5,858,056
Total Non-Depreciable Assets	59,205,310	868,734	(47,201,874)	12,872,170
Depreciable Assets:				
Land Improvements	214,908	-	-	214,908
Buildings and Structures	152,122,469	46,966,383	-	199,088,852
Machinery, Equipment and Fixtures	2,251,164	88,791	-	2,339,955
Total Depreciable Assets	154,588,541	47,055,174	-	201,643,715
Total Capital Assets	213,793,851	47,923,908	(47,201,874)	214,515,885
Less Accumulated Depreciation:				
Land Improvements	155,623	10,745	-	166,368
Buildings and Structures	100,531,940	5,446,696	-	105,978,636
Machinery, Equipment and Fixtures	1,626,554	129,087	-	1,755,641
Total Accumulated Depreciation	102,314,117	5,586,528	-	107,900,645
Net Capital Assets	$ 111,479,734	$ 42,337,380	$ (47,201,874)	$ 106,615,240

(Continued)

Business-type Activities (continued)	Beginning Balance, As Restated	Increase	Decrease	Ending Balance
Non-major Funds:				
Non-Depreciable Assets:				
Land and Land Rights	$ 5,169,374	$ -	$ -	$ 5,169,374
Total Non-Depreciable Assets	5,169,374	-	-	5,169,374
Depreciable Assets:				
Land Improvements	8,020,719	-	-	8,020,719
Buildings and Structures	5,272,287	-	-	5,272,287
Machinery, Equipment and Fixtures	1,703,438	25,878	-	1,729,316
Vehicle and Buses	1,047,009	435,106	-	1,482,115
Total Depreciable Assets	16,043,453	460,984	-	16,504,437
Total Capital Assets	21,212,827	460,984	-	21,673,811
Less Accumulated Depreciation:				
Land Improvements	5,557,376	401,035	-	5,958,411
Buildings and Structures	4,026,473	51,668	-	4,078,141
Machinery, Equipment and Fixtures	1,348,032	89,624	-	1,437,656
Vehicle and Buses	551,180	79,374	-	630,554
Total Accumulated Depreciation	11,483,061	621,701	-	12,104,762
Net Capital Assets	$ 9,729,766	$ (160,717)	$ -	$ 9,569,049

Component Units

School District of the City of Detroit.	Beginning Balance, As Restated	Additions	Retirements	Ending Balance
Non-Depreciable Assets:				
Land and Land Rights	$ 16,029,722	$ 39,408,081	$ (10,200)	$ 55,427,603
Construction in Progress	621,331,015	267,391,543	(456,222,486)	432,500,072
Total Non-Depreciable Assets	637,360,737	306,799,624	(456,232,686)	487,927,675
Depreciable:				
Buildings and Structures	735,829,867	275,012,269	(1,079,831)	1,009,762,305
Land Improvements	25,932,533	37,587,411	(113,265)	63,406,679
Buses and Other Vehicles	41,885,339	1,428,099	—	43,313,438
Machinery, Equipment, and Fixtures	53,633,799	112,491,220	(61,387)	166,063,632
Total Depreciable Assets	857,281,538	426,518,999	(1,254,483)	1,282,546,054
Total Capital Assets	1,494,642,275	733,318,623	(457,487,169)	1,770,473,729
Less Accumulated Depreciation:				
Building and Structures	325,284,364	15,133,199	(1,039,569)	339,377,994
Land Improvements	9,050,585	1,877,300	(8,993)	10,918,892
Buses and Other Vehicles	24,108,917	3,063,182	—	27,172,099
Machinery, Equipment, and Fixtures	22,912,305	15,024,835	25,886	37,963,026
Total Accumulated Depreciation	381,356,171	35,098,516	(1,022,676)	415,432,011
Net Capital Assets	$ 1,113,286,104	$ 698,220,107	$ (456,464,493)	$ 1,355,041,718

Other Component Units:

	Beginning Balance, As Restated	Additions	Retirements	Ending Balance
Non-Depreciable Assets.				
Land and Land Rights	$ 7,789,061	$ 30,242,952	$ —	$ 38,032,013
Works of Art	3,216,175	—	—	3,216,175
Construction in Progress	7,159,936	23,942,191	(1,594,751)	29,507,376
Total Non-Depreciable Assets	18,165,172	54,185,143	(1,594,751)	70,755,564
Depreciable:				
Land and Leasehold Improvements	188,444	—	—	188,444
Buildings and Structures	77,881,501	159,405,404	(941,614)	236,345,291
Facility and Steamline	513,008,682	614,615	—	513,623,297
Works of Art	18,745,260	10,276,083	—	29,021,343
Machinery, Equipment and Fixtures	118,157,367	152,958,668	—	271,116,035
Vehicles and Buses	383,024	—	—	383,024
Total Depreciable Assets	728,364,278	323,254,770	(941,614)	1,050,677,434
Total Capital Assets	746,529,450	377,439,913	(2,536,365)	1,121,432,998
Less Accumulated Depreciation	368,550,253	146,285,747	—	514,836,000
Net Capital Assets	$ 377,979,197	$ 231,154,166	$ (2,536,365)	$ 606,596,998

8. **Deferred Revenue:** Deferred revenue represents revenue received, but for which the revenue recognition criteria have not been met. Accordingly, these revenues are deferred until such time as the revenue recognition criteria are met.

9. **Due from/to Component Units:** Due from/to component units consists of sales, charges for services, and property tax revenue to the District, DPL, EDC, and DTC.

B. LIABILITIES

1. Commitments and Contingencies

a. **Lawsuits and Claims:** The City is a defendant in numerous lawsuits and is also subject to other claims. It has been the City's experience that lawsuits and claims are settled for amounts less than the stated demand. While it is not possible to determine the final outcome of these lawsuits and claims exactly, the City and its Legal Department have estimated that the liability for all such litigation and claims approximates $121.9 million for governmental activities.

b. **Grant Audits:** Several of the City's funds participate in a number of federally assisted grant programs, principal of which are the Community Development Block Grant, Low Income Housing Subsidies, Head Start, Job Training Partnership Act, DDS Work First/Edge, and Substance Abuse Programs. These programs are subject to program compliance audits by the grantors or their representatives. The audits of these programs prior to and/or including the year ended June 30, 2004 have not been conducted and/or completed. Accordingly, the funds' compliance with applicable grant requirements will be established at some future date. The amount, if any, of expenditures that may be disallowed by the granting agencies cannot be determined as of June 30, 2004. Since the City believes such adjustments, if any, will not be material, no provision for possible adjustments has been made.

c. **Detroit Housing Commission Grant Audits:** Effective July 1, 2003, the City of Detroit changed its presentation of the Detroit Housing Commission (DHC) to a discretely presented component unit of the City. The DHC received a qualified opinion on their June 30, 2004 financial statements. Their opinion was qualified based on several issues including the following:

1) The DHC has contingent liabilities to the Department of Urban Development (HUD), which are not recorded on the DHC's financial statements. In April of 2003, HUD issued a Management Review of the Detroit Housing Commission. This report outlined questioned costs and unsupported expenses amounting to $14,236,946. These amounts are summarized below:

Grant Name	Amount
Low Income Housing Grant	$ 5,722,600
PHDEP	5,359,891
Capital Projects Grant	4,577,932
Total	15,660,423
Less: Amount not drawn down from HUD	(1,423,477)
	$ 14,236,946

2) On May 16, 2001, the HUD Office of the Inspector General issued an Audit report concerning the HOPE VI Program. The report outlined $18,291,476 in questioned costs due to HUD. Due to on-going negotiations, the balance of this liability is $6,480,057 at June 30, 2004. This amount is included as a non-current liability in the DHC's financial statements at June 30, 2004. These liabilities were incurred while the DHC was reported as a department of the City; therefore, both of the contested amounts of $14,236,946 and $6,480,057 have been recorded in the City's government-wide financial statements.

d. **Rate Matters:** The Sewage Disposal Fund is a party to certain challenges and disputes related to its wastewater treatment rates by various groups and governmental entities. The challenges address the reasonableness of the overall revenue requirement to be attained, certain cost allocation methods, and ultimate amounts billed. Settlement discussions are ongoing and the ultimate resolution is not currently known.

e. **Block Grant Funds:** Several revitalization projects in the City have used a combination of financing from governmental and private sources. One of the sources of governmental financing has been Section 108 loan notes from the Federal Government.

As of June 30, 2004, future Block Grant Funds of $22,523,000 were pledged as collateral for the amounts owed to the Federal Government under Section 108 of the Housing and Community Development Act of 1974, as amended. In addition, the City was previously authorized to use Block Grant Funds totaling $66,962,000 for the Central Industrial Park Project. At June 30, 2004, $2,807,435 is outstanding against this advance.

f. **Greater Detroit Resource Recovery Authority (Authority):** In 1991, the Authority sold its waste-to-energy facility to private investors in a sale-leaseback transaction for $634.9 million. The purchase price was paid with $127 million in cash, mortgage notes of $342.7 million, and future assumption of revenue bonds payable in the amount of $165.2 million. The purchasers agreed to lease the facility to an outside contractor for an initial lease term of 18 years. The outside contractor will continue to operate the facility under a supplemental operating agreement with the Authority, which results in the Authority assuming most of the lease obligations. Upon expiration of the initial lease term, the Authority has options to renew the lease or to repurchase the facility. The City, under the supplemental service contract, has agreed to pay supplemental tipping fees to the Authority sufficient to, among other things, meet these obligations. The lease payments approximate the amortization of the mortgage notes. The cash proceeds from the sale of the facility will be reported as a finance obligation until the Authority's repurchase option is exercised or expires, at which time the gain on the sale will be recognized. Additionally, in 1991 the Authority distributed $54 million of the cash proceeds to the City, which was reflected as a reduction of the Authority's equity.

Future minimum lease payments for each of the next five years for the initial lease term are as follows: 2005 – $59,297,765; 2006 – $51,419,062; 2007 – $52,521,466; 2008 – $ 34,719,333 and 2009 – $34,719,333.

g. **Other Contingencies:** The General Fund has a contingent liability for the obligations of all other City funds should such funds be unable to generate sufficient funds to liquidate their liabilities. In particular, the Airport, Detroit Transportation Corporation, and Transportation Fund have received varying levels of subsidy from the General Fund to fund operating requirements.

h. **Construction Commitment:** The City has commitments for future construction contracts. Construction in progress and remaining commitments at June 30, 2004 are as follows:

		Spent to June 30, 2004		Remaining
Public protection	$	43,352,986	$	226,635
Municipal facilities		29,355,400		7,264,435
Cultural and recreational		77,354,682		30,866,727
Human services		1,288,329		884,201
Municipal services		1,755,560		9,319,977
	$	153,106,957	$	48,561,975

i. Risk Management: The City is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; injuries to employees; and natural disasters. During fiscal 1995, the City issued $100 million of Self-insurance Bonds, and a portion of proceeds were used to reimburse the General Fund for all of its fiscal 1995 legal judgments and workers' compensation claim payments ($41.0 million). The bonds require that remaining funds be used for self-insurance activities. Self-insured among other covered losses are liabilities for workers' compensation, legal, and disability benefits. The City currently reports the risk management activities of non-Enterprise Funds and DDOT in its General Fund. Each fund pays insurance premiums to the General Fund based on past claims activities. Amounts remaining related to self-insurance have been restricted. Because DDOT is included in the General Fund's risk management activities, it does not record a liability in its financial statements.

Risk management activities for the other Enterprise Funds are recorded and reported separately in those funds. The Library, a discretely presented component unit, reimburses the City for all costs incurred related to workers compensation. The Library records the liability in its financial statements.

At June 30, 2004, the amount of the workers' compensation, legal claims and judgments, and disability benefits was estimated at $187.3 million for the primary government. The City has recognized a liability that approximated $8.8 million in the General Fund as of June 30, 2004 for public liability and workers compensation claims that were due as of year- end. All other claims liabilities are considered to be long-term liabilities and are recognized in the government-wide financial statements. This liability is the City's best estimate based on available information. Changes in the reported liability for the years ended June 30, 2004 and 2003 were as follows:

	(In Millions)			
		June 30, 2004		June 30, 2003
Balance at Beginning of Year	$	178.8	$	203.9
Current Year Claims and Changes in Estimates		117.7		61.0
Claims Payments		(109.2)		(86.1)
Balance at End of Year	$	187.3	$	178.8

Claims, expenditures, and liabilities are reported in accordance with GASB No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues* (as amended by GASB No. 17), when it is probable that an asset has been impaired or a liability has been incurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported.

As a result of the issuance of the Self-insurance Bonds and the operations of the Self-insurance Reserve Fund, at June 30, 2004 the General Fund has reserved $35.9 million for the purpose of funding the City's future claims liabilities.

2. **Other Commitments:** The City has entered into various noncancelable operating leases for various equipment. The commitments under such lease agreements provide for minimum annual rental payments as follows:

Fiscal Year Ending:		
2005	$	14,080,982
2006		12,820,755
2007		7,940,355
2008		2,548,570
2009		5,620,877
2010		4,513,420
Total Minimum Payments	$	47,524,959

Rental expense for all operating leases approximated $30.5 million for the year ended June 30, 2004.

3. **Long-term Obligations:** Long-term obligations are reported by the City as general long-term obligations if the obligation is to be repaid from Governmental Fund resources, or as long-term obligations – Enterprise Funds if the obligation is to be repaid from funds other than Governmental Fund resources. Interest rates range from 2.42% to 7.97% for governmental activities, 2% to 7.75% for business-type activities and 2.90% to 9.375% for component units.

   The Michigan Constitution established the authority, subject to constitutional and statutory prohibition, for municipalities to incur debt for public purposes. The City is subject to the Home Rule Act, Act 279 Public Acts of Michigan, 1909, as amended, which limits the net indebtedness incurred for all public purposes to as much as, but not to exceed, the greater of the following: (a) 10% of the assessed value of all the real and personal property in the City, or (b) 15% of the assessed value of all the real and personal property in the City if that portion of the total amount of indebtedness incurred which exceeds 10% is, or has been, used solely for the construction or renovation of hospital facilities.

   The various bond indentures contain significant limitations and restrictions on annual debt service requirements, maintenance of and flow of monies through various restricted accounts, minimum amounts to be maintained in various sinking funds, and minimum revenue bond coverage.

4. **Debt Issuances and Refunding Bonds**

   Governmental Activities:

   In September 2003, the City issued $35,603,138 of Convention Facility Special Tax Revenue and Revenue Refunding Bonds for improvements to Cobo Hall and $55,280,000 to refund series 1993 Bonds. The bonds mature beginning on September 30, 2004, with an average yield of 3.8%.

   In September 2003, the City issued $70,025,000 of Self-Insurance Bonds Limited Tax to fund the payment of claims and $28,870,000 to refund outstanding self-insurance bonds. The bonds mature beginning June 30, 2006, with an average yield of 4.59%.

   In October 2003, the City issued $44,020,000 of GO. Unlimited Tax Bonds for capital improvements to various General City Agencies. Additionally $10,770,000 of refunding bonds were issued to refund Series 1993 Distributable State Aid Bonds. The bonds mature beginning April 1, 2006, with an average yield of 4.36%.

In March 2004, the City issued $29,825,000 of Capital Improvement Bonds (Limited Tax General Obligation) to acquire vehicles and equipments. Additionally $11,935,000 of refunding bonds were issued to refund outstanding bonds. The bonds mature, beginning April 1, 2005, with an average yield or 2.3%.

In June 2004, the City issued $61,070,000 of General Obligation Fiscal Stabilization Bonds (Limited Tax General Obligation) to fund a portion of the City's accumulated operating deficit. The bonds mature, beginning April 1, 2005, with an average yield of 3.37%. State legislature authorizes municipalities to establish budget stabilization funds for the purpose of providing a method of stabilizing financial operations.

In prior years, the City defeased certain bonds by placing the proceeds of new debt in an irrevocable trust to provide for all future debt service payments on the prior debt. Accordingly, the trust account assets and the liability for the defeased debt are not included in the City's financial statements. The amount of defeased debt outstanding at June 30, 2004 approximated $67.8 million.

Business-type Activities:

Sewage Disposal Fund:

Swap Termination Payment: During the year ended June 30, 2004, the Sewage Disposal Fund and its counterparty terminated a forward starting swap agreement related to the issuance of debt in fiscal year 2005. The Fund received a termination payment in the amount of $14,056,137 that has been deferred to offset future debt service. The proceeds will be recognized over the life of the debt that will be issued in fiscal year 2005 using the straight-line method.

The outstanding indebtedness of the Fund was $2,375,152,599 at June 30, 2004. The interest rates on the outstanding bonds range from 4.2% to 6.5%. Net revenues of the Fund are pledged to repayment of bonds. In fiscal 2004, the Fund issued $101,435,000 of City of Detroit, Michigan Sewage Disposal System Senior Lien Revenue Refunding Bonds, Series 2004-A. The net proceeds of the 2004-A Bonds will be used to refund certain of the City's outstanding Senior Lien Bonds and to pay cost of issuance associated with the 2004-A Bonds.

A portion of the Senior Lien Revenue Refunding Bonds, Series 2004-A was used to advance-refund $38,135,000 of the outstanding Sewage Disposal System Revenue Bonds, Series 1995-A, and $65,710,000 of Sewage Disposal System Revenue Bonds, Series 1997-A. The net proceeds of $112,856,821 (after receiving a premium of $12,830,333 and payment of $1,408,512 in underwriting fees, insurance, and other issuance costs) were used to purchase U.S. Government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1995-A Series and 1997-A Series bonds. As a result, the 1995-A Series and 1997-A Series bonds are considered to be partially defeased, and a portion of the liability for those bonds has been removed from the balance sheet.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $4,938,589. This difference, reported in the financial statements as a deduction from bonds payable, is being charged to operations through the year 2024 using the straight-line method. The Fund completed the advance refunding to reduce its total debt service payments over the next 20 years and to obtain an economic gain (difference between the present values of the old and new debt service payments) of $3,398,743.

The Fund defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Fund's financial statements. Similarly, the interest expense related to the defeased bonds and the related interest income earned on the escrow fund investments have not been recognized in the statements of revenues, expenses, and changes in fund net assets. As of June 30, 2004 $490,565,000 of bonds outstanding are considered defeased.

Bonds outstanding at June 30, 2004 included $1,556,769,307 of bonds callable at various dates after July 1, 2004. These bonds are callable at varying premiums, depending on the issue and length of time to maturity.

Subsequent to year-end, the Fund received loans from the Michigan Municipal Bond Authority Michigan State Revolving Loan Fund Program in the amount of $28,458,285 for the construction of facilities. The outstanding indebtedness of the Fund for revenue bonds was $1,713,435,000 at June 30, 2004. The interest rates on the outstanding fixed-rate revenue bonds range from 4.30% to 6.38%. Net revenues of the Fund are pledged to repayment of bonds.

Water Fund:

Swap Termination Payment: During the year ended June 30, 2004, the Water Supply System Fund and its counterparty terminated a forward starting swap agreement related to the issuance of debt in fiscal year 2005. The Fund received a termination payment in the amount of $16,943,863 that has been deferred to offset future debt service. The proceeds will be recognized over the life of the debt that will be issued in fiscal year 2005 using the straight-line method.

In fiscal 2004, the Fund issued $240,600,000 of City of Detroit, Michigan Water Supply System Revenue Senior Lien Bonds consisting of; $77,010,000 of City of Detroit, Michigan Water Supply System Revenue Refunding Second Lien Bonds (Variable Rate Demand) Series 2004-A; and $163,590,000 of City of Detroit, Michigan Water Supply System Revenue Refunding Senior Lien Bonds (Variable Rate Demand) Series 2004-B. The net proceeds were used to refund a portion of the City's outstanding Water Supply System Revenue Bonds and Revenue Refunding Bonds and to pay cost of issuance associated with the 2004 Bonds.

The proceeds of the Revenue Refunding Second Lien Bonds, Series 2004-A were used to advance-refund $70,830,000 of outstanding Water Supply System Revenue Second Lien Bonds, Series 1995-A, maturing in the years 2015 and 2025 with an average interest rate of 5.5%. The net proceeds of $76,165,192 (after payment of $844,808 in underwriting fees, insurance, and other issuance costs) were used to purchase U.S. Government securities.

The proceeds of the Revenue Refunding Senior Lien Bonds, Series 2004-B were used to advance-refund $12,610,000 of outstanding Water Supply System Revenue and Refunding Bonds, Series 1993, maturing serially in the years 2005 through 2009; $30,000,000 of Series 1993 Term Bonds, maturing in the year 2013; $58,030,000 of Series 1993 Term Bonds, maturing in the year 2019; and $54,940,000 of Series 1993 Term Bonds, maturing in the year 2023. The net proceeds of $161,794,783 (after payment of $1,795,217 in underwriting fees, insurance, and other issuance costs) were used to purchase U.S. Government securities.

Those refunded securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1993 Series Bonds and provided for partial future debt service payments on the 2001-A Series Bonds. As a result, the 1993 Series Bonds and a portion of the 2001-A Series Bonds are considered to be defeased, and the liability for those bonds has been removed from the balance sheet.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $18,639,245. This difference, reported in the financial statements as a deduction from bonds payable, is being charged to operations through the year 2025 using the straight-line method. The Fund completed the advance refunding to reduce its total debt service payments over the next 21 years and to obtain an economic gain (difference between the present values of the old and new debt service payments) of $12,105,118.

The Fund defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Fund's financial statements. Similarly, the interest expenses related to the defeased bonds and the related interest income earned on the escrow fund investments have not been recognized in the statements of revenues, expenses, and changes in fund net assets. As of June 30, 2004, approximately $546,360,000 of bonds outstanding are considered defeased.

Bonds outstanding at June 30, 2004 include $1,390,050,000 of bonds callable at various dates after June 30, 2004. These bonds are callable at varying premiums, depending on the issue and length of time to maturity.

Automobile Parking Fund:

Swap Termination Payment: During the year ended June 30, 2004, the Automobile Parking Fund and its counterparty terminated a swap agreement related to the issuance of debt in fiscal year 2000. The Fund received a termination payment in the amount of $4,077,469. The proceeds will be recognized over the remaining life of the debt for which the swap was issued using the straight-line method.

Component Units:

As of June 30, 2004 of this year, the School District had $1.502 billion in bonds outstanding, plus $45.7 million in unamortized bond premium, for a total of $1.547 billion.

Subsequent to year end, the School District repaid the $195,535,000 and $70,000,000 notes due August 2004 and borrowed $210,000,000 at 1.55 percent annual interest on a new State Aid Anticipation Note. The note, plus interest, is due in August 2005. At June 30, 2004, Detroit Public Schools has accrued interest of $1,879,388 on these notes.

During the year, the school district issued $17,330,000 in general obligation bonds with an average interest rate of 4.00 percent. The proceeds of the bonds were used to advance refund $7,800,000 of Series XXI bonds with an average interest rate of 7.00 percent and $9,150,000 of the Series XXII bonds with an average interest rate of 9.35 percent. The net proceeds of approximately $17.1 million were placed in an irrevocable trust.

In prior years, the District defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust accounts assets and liabilities for the defeased bonds are not included in the financial statements. The amount of defeased debt outstanding at June 30, 2004 approximated $66.1 million.

	Bond Date	Amount Issued	Retired Year Ended June 30, 2004 Interest Rate	Retired Year Ended June 30, 2004 Amount	Outstanding June 30, 2004 Range of Interest Rates	Outstanding June 30, 2004 Maturity Date	Outstanding June 30, 2004 Amount	
Governmental Activities: (Note A)								
General Obligation Bonds - Unlimited Tax								
Series 1995-B	8-1-95	$ 183,450,000	7%	$ 17,050,000	6.25 to 6.38%	4/1/05-11	$ 99,470,000	c
Series 1996-A	11-1-96	22,195,000	-	-	5.20 to 5.50	4/1/08-16	20,470,000	c
Series 1996-B	11-1-96	1,350,000	4.80	165,000	4.90 to 5.00	4/1/05-06	350,000	
Series 1996-B	11-1-96	21,975,000	-	-	5.10 to 5.50	4/1/07-15	21,975,000	c
Series 1997-A	12-15-97	29,605,000	-	-	5.00 to 5.50	4/1/08-18	29,120,000	c
Series 1997-B	12-15-97	12,860,000	4.40	235,000	4.40 to 5.50	4/1/05-07	8,865,000	
Series 1997-B	12-15-97	22,945,000	-	-	5.00 to 5.38	4/1/08-14	22,945,000	c
Series 1999-A	4-1-99	13,975,000	-	300,000	5.00	4/1/08	1,705,000	
Series 1999-A	4-1-99	30,125,000	-	-	5.00 to 5.25	4/1/09-19	30,125,000	c
Series 1999-B	11-15-99	14,725,000	-	-	5.00	4/1/08-09	3,825,000	
Series 1999-B	11-15-99	30,275,000	-	-	5.125 to 6.00	4/1/10-19	30,275,000	c
Series 2000-AMT	2-15-00	9,270,000	5.00	975,000	5.00 to 5.75	4/1/05-09	5,680,000	
Series 2000-AMT	2-15-00	1,335,000	-	-	5.75	4/1/10	1,335,000	c
Series 2001 A (1)	7-15-01	16,800,000	-	-	3.625 to 5.50	4/1/06-11	16,800,000	
Series 2001 A (1)	7-15-01	83,200,000	-	-	5.0 to 5.315	4/1/12-21	83,200,000	c
Series 2001-A(2)	7-15-01	5,000,000	-	-	Variable	4/1/2022	5,000,000	c
Series 2001-B	7-15-01	23,560,000	3.25	1,250,000	3.50 to 5.50	4/1/05-11	22,310,000	
Series 2001-B	7-15-01	23,235,000	-	-	5.375	4/1/12-14	23,235,000	
Series 2002	8-2-02	13,840,000	3.00	1,560,000	3.00 to 4.00	4/1/05-10	10,420,000	
Series 2002	8-2-02	31,160,000	-	-	4.00 to 5.50	4/1/11-22	31,160,000	c
Series 2003A	10-9-03	7,065,000	-	-	3.70 to 5.00	4/1/10-12	7,065,000	
Series 2003A	10-9-03	36,955,000	-	-	4.00 to 5.25	4/1/13-23	36,955,000	c
Series 2003B	10-9-03	10,770,000	-	10,770,000	3.0 to 5.00	4/1/2006	0	
Distributable State Aid Bonds:								
Series 1993	12-1-93	136,675,000	4.90	10,050,000	5.00 to 5.25	5/1/05-09	58,365,000	
Total General Bonds - Unlimited Tax							570,650,000	

1 - interest rate equal to the Dutch Auction Rate.
2 - interest rate equal to 1 1/4% in excess of the cost of funds. The cost of funds shall be the rate quoted by the registered holder of the bonds.
c -indicates bonds are callable under terms specified in the indenture; all other bonds are noncallable.

	Bond Date	Amount Issued	Retired Year Ended June 30, 2004 Interest Rate	Retired Year Ended June 30, 2004 Amount	Outstanding June 30, 2004 Range of Interest Rates	Maturity Date	Amount
Governmental Activities:							
General Obligation Bonds - Limited Tax:							
Self-Insurance Bonds:							
Series 1995-B	6-1-95	$ 40,000,000	6.83%	$ 28,870,000	0%	-	$ -
Series 2003	9/1/2003	98,895,000	-	-	2.42 to 4.97	5/1/2006	98,895,000
General Obligation:							
Series 1997	5-1-97	3,300,000	4.95	535,000	5.05 to 5.20	7/15/04-06	1,770,000
Series 1997	5-1-97	13,665,000	-	-	5.25 to 6.25	7/15/07-20	13,665,000
Series 2002A	6-27-02	52,725,000	4.50	12,010,000	4.5 to 5.0	4/1/05-21	39,560,000
Series 2004A	3-12-04	41,760,000	-	-	1.05 to 5.0	4/1/05-09	41,760,000
Series 2004Fiscal Stabilization	6-17-04	61,070,000	-	-	3.0 to 5.0	4/1/05-09	61,070,000
Total General Bonds- Limited Tax							256,720,000
Total General Bonds							827,370,000
Detroit Building Authority Bonds:							
District Court Madison Center Project, Series 1996 A	9-1-96	2,770,000	6.15	780,000	6.15	2/1/05-06	1,990,000
	9-1-96	7,230,000	-	-	6.15	2/1/07-11	7,230,000
	9-1-96	1,000,000	-	-	Variable	2/1/11	1,000,000
Series 1996 B	9-1-96	6,910,000	7.97	586,478	7.97	7/1/04-06	1,193,826
Total Detroit Building Authority Bonds							11,413,826
Total General Obligation Bonds							838,783,826
Revenue Bonds:							
Convention Facility Limited Tax Revenue Bonds- Cobo Hall Expansion:							
Series 1993	9-1-93	167,050,000	5.75	78,515,000	5.10 to 5.75	9/1/04-07	44,485,000
Series 2003	9-18-03	90,883,138	-	-	2.0-5.0	09/30/4-15	90,883,138
TotalConventional Facility Limited Tax Revenue Bonds-Cobo Hall Expansion							135,368,138
Total Bonds							$ 974,151,964

c – indicates bonds are callable under terms specified in the indenture; all other bonds are noncallable

	Bond Date	Amount Issued	Retired Year Ended June 30, 2004 Interest Rate	Amount	Outstanding June 30, 2004 Range of Interest Rates	Maturity Date	Amount	
Business type Activities:								
Sewage Disposal Fund								
Sewage Disposal System Revenue Bonds (note B):								
Series 1992-A-SRF (5044-01)	6-25-92	$ 4,360,000	2.00%	$ 220,000	2.00%	4/1/05-13	$ 2,175,000	
Series 1992-B-SRF (5070-01)	9-10-92	1,915,000	2.00	95,000	2.00	10/1/04-13	1,050,000	c
Series 1993-A	3-9-93	45,850,000	Various	11,785,000	-	-	-	
Series 1993-B-SRF (5091 & 5092)	9-30-93	6,603,996	2.00	315,000	2.00	10/1/04-14	3,910,000	c
Series 1995-A	11-1-95	14,630,000	4.70	2,600,000	5.00 to 6.00	7/1/2004	2,715,000	
Series 1995-A	11-1-95	117,800,000	Various	38,135,000	5.00 to 5.25	7/1/05-16	9,655,000	c
Series 1995-B	11-1-95	45,040,000	4.70	1,865,000	4.80	7/1/2004	1,960,000	
Series 1995-B	11-1-95	80,255,000	-	-	4.90 to 6.25	7/1/05-21	80,255,000	c
Series 1997-A	6-15-97	55,625,000	4.50	4,300,000	4.60 to 6.00	7/1/04-06	35,865,000	
Series 1997-A	6-15-97	206,869,128	-	65,710,000	5.00 to 6.00	7/1/07-27	106,799,128	c
Series 1997-B-SRF (5125-01)	9-30-97	5,430,174	2.25	235,000	2.25	10/1/04-18	4,245,000	
Series 1998-A	12-10-98	69,000,000	-	-	4.512	7/1/04-23	68,400,000	
Series 1998-B	12-10-98	68,955,000	-	-	4.512	7/1/04-23	68,200,000	
Series 1999-SRF-1 (5126-01)	6-24-99	21,475,000	2.50	905,000	2.50	4/1/05-20	17,985,000	
Series 1999-SRF-2 (5143-01)	9-30-99	46,000,000	2.50	1,795,000	2.50	10/1/04-20	44,205,000	
Series 1999-SRF-3 (5144-01)	9-30-99	29,255,633	2.50	1,275,000	2.50	10/1/04-20	25,530,633	
Series 1999-SRF-4 (5175-01)	9-30-99	40,655,000	2.50	1,670,000	2.50	10/1/04-20	35,775,000	
Series 1999-A	12-1-99	7,225,000	4.50	2,190,000	4.625 to 5.00	7/1/04-09	1,515,000	
Series 1999-A	12-1-99	295,770,178	-	-	5.125 to 6.00	7/1/10-29	37,620,179	c
Series 2000-SRF-1 (5143-02)	9-28-00	46,593,256	2.50	2,085,000	2.50	10/1/04-22	44,508,256	
Series 2000-SRF-2 (5175-02)	9-28-00	57,839,727	2.50	2,535,000	2.50	10/1/04-22	55,304,727	
Series 2001-SRF-1 (5175-03)	6-28-01	82,200,000	-	-	2.50	10/1/04-24	82,200,000	
Series 2001-SRF-2 (5175-04)	6-28-01	57,195,868	-	-	2.50	10/1/04-24	57,195,868	
Series 2001-A	9-15-01	76,375,000	-	-	5.00 to 5.13	7/1/22-31	76,375,000	
Series 2001-B	9-15-01	110,550,000	-	-	5.50	7/1/23-29	110,550,000	
Series 2001-C(1)	9-23-01	159,970,000	4.43	345,000	4.43	7/1/04-27	156,860,000	
Series 2001-C(2)	9-23-01	127,165,000	4.47	225,000	4.47	7/1/04-24	124,735,000	
Series 2001-D	9-23-01	92,450,000	-	-	5.50	7/1/2032	92,450,000	
Series 2001-E	9-23-01	139,080,000	-	-	4.38	7/1/24-31	139,080,000	
Series 2002 SRF-1 (5204-01)	10-27-01	17,491,081	-	745,000	2.50	4/1/05-23	16,746,081	
Series 2002-SRF-2(5204-02)	10-27-01	1,191,123	-	75,000	2.50	4/1/05-33	1,116,148	
Series 2003-A	5-22-03	158,000,000	3.00	3,485,000	5.00	7/1/04-13	154,515,000	
Series 2003-A	5-22-03	441,380,000	-	-	5.00	7/1/14-32	441,380,000	c
Series 2003-B	5-22-03	150,000,000	-	-	Variable	7/1/32-33	150,000,000	
Series 2003-SRF-1(5204-04)	6-28-03	15,339,190	-	-	2.50	10/1/06-25	15,339,190	
Series 2003-SRF-2(5204-03)	9-25-03	7,502,389	-	-	2.50	4/1/06-25	7,502,389	
Series 2004-A	1-9-04	101,435,000	-	-	2.00 to 5.25	7/1/04-25	101,435,000	
Total Sewage Disposal System Revenue Bonds							$ 2,375,152,599	

c - indicates bonds are callable under terms specified in the indenture; all other bonds are noncallable

	Bond Date	Amount Issued	Retired Year Ended June 30, 2004 Interest Rate	Retired Year Ended June 30, 2004 Amount	Outstanding June 30, 2004 Range of Interest Rates	Outstanding June 30, 2004 Maturity Date	Outstanding June 30, 2004 Amount	
Business type Activities:								
Water Fund								
Water Supply System Revenue Bonds (notes C and D)								
Series 1993	10-15-93	$ 38,225,000	4.65%	$ 157,490,000	4.70 to 6.5%	7/1/04-15	$ 14,270,000	
Series 1993	10-15-93	128,035,000	-	-	4.70 to 6.50	7/1/04-23	12,910,000	c
Series 1995A	10-15-95	102,100,000	4.70	73,495,000	4.70 to 5.55	7/1/04-12	70,130,000	
Series 1995A	10-15-95	70,830,000	-	-	5.50	7/1/13-25	12,150,000	c
Series 1997A	9-1-97	29,080,000	4.40	3,845,000	4.30 to 5.25	7/1/04-06	12,655,000	
Series 1997A	9-1-97	186,220,000	-	-	4.80 to 6.00	7/1/07-27	186,220,000	c
Series 1997B	9-1-97	30,555,000	6.00	6,655,000	5.0 to 5.25	7/1/04-06	22,040,000	
Series 1999A	11-1-99	18,000,000	4.50	2,000,000	4.50 to 5.25	7/1/04-09	12,000,000	
Series 1999A	11-1-99	238,340,000	-	-	5.125 to 5.75	7/1/10-18	58,700,000	c
Series 2001A	5-1-01	302,485,000	-	-	4.50 to 5.75	7/1/11-33	167,675,000	c
Series 2001B	5-1-01	108,985,000	-	-	4.50 to 5.50	7/1/12-33	108,985,000	c
Series 2001C	6-7-01	192,290,000	-	-	Variable	7/1/04-29	192,290,000	
Series 2003A	1-28-03	234,805,000	-	-	4.75 to 5.25	7/1/04-34	234,805,000	c
Series 2003B	1-28-03	172,945,000	-	-	2.0 to 5.25	7/1/04-34	172,945,000	c
Series 2003C	1-28-03	46,355,000	2.00	2,665,000	2.0 to 5.25	7/1/04-22	43,690,000	c
Series 2003D	1-28-03	151,370,000	-	-	Variable	7/1/04-34	151,370,000	c
Series 2004A	5-04-04	77,010,000	-	-	3.94	7/1/04-23	77,010,000	
Series 2004B	5-04-04	163,590,000	-	-	3.94	7/1/04-23	163,590,000	
Total Water Supply System Revenue Bonds							$ 1,713,435,000	
Automobile Parking Fund								
Detroit Building Authority Bonds - Revenue Refunding Bonds:								
Parking & Arena System-Series 1997A	2-15-97	$ 3,050,000	0.05%	$ 340,000	4.60 to 4.80%	7/1/04-06	$ 1,110,000	
Parking & Arena System-Series 1997B	2-15-97	37,695,000	6.60	4,250,000	6.68 to 6.79	7/1/04-06	14,535,000	
Parking & Arena System-Series 1998A	7-1-98	8,385,000	4.50	925,000	4.50	7/1/04-03	4,140,000	
Parking & Arena System-Series 1998A	7-1-98	18,615,000	-	-	4.70 to 5.25	7/1/08-19	18,615,000	c
Parking & Arena System-Series 1999A	10-22-99	29,900,000	7.75	400,000	7.75	7/18/04-29	28,700,000	
Total Detroit Building Authority Revenue Refunding Bonds							67,100,000	
Total Business-type Bonds							$ 4,155,687,599	

Note A - As of June 30,2004, the City had $59,120,000 in outstanding General Obligation Bonds which have been defeased or advanced refunded.
Note B - As of June 30,2004, the City had $490,565,000 in outstanding Sewage Disposal System Revenue Bonds which have been defeased or advanced refunded.

Note C - Stated Principal amount of State Revolving Fund Bonds issued as part of the State of Michigan's Revolving Loan Program. As the System draws additional amounts from time to time hereafter, the outstanding principal amounts of such Bonds will correspondingly increase.
Note D - As of June 30,2004, the City had $546,360,000 in outstanding Water Supply System Revenue Bonds which have been defeased or advanced refunded.

b. The following is the schedule of Notes Payable at June 30, 2004:

Governmental Activities Notes Payable	Issue Date	Range of Interest Rates	Maturity Date	Amount Outstanding June 30, 2004
Urban Renewal Fund:				
Caraco Pharmaceutical Project (Secured by Future Block Grant Revenue)	8/1/2002	1.75 to 4.16%	8/1/2008	$ 5,208,000
Ferry Street Project (Secured by Future Block Grant Revenue)	4/28/1999	1.75 to 4.17	8/1/04-19	2,900,000
Garfield Project (Secured by Future Block Grant Revenue)	6/5/1996	1.75 to 4.18	8/1/03-15	1,945,000
Michigan Repacking Project (Secured by Future Block Grant Revenue)	10/28/1997	1.75 to 4.19	8/1/03-04	1,290,000
Riverbend Project (Secured by Future Block Grant Revenue)	6/5/1996	1.75 to 4.20	8/1/03-15	745,000
Riverbend Project (Secured by Future Block Grant Revenue)	10/28/1997	1.75 to 4.21	8/1/03-16	405,000
Stuberstone Project (Secured by Future Block Grant Revenue)	10/28/1997	1.75 to 4.22	8/1/03-16	330,000
New Amsterdam Project (Secured by Future Block Grant Revenue)	8/1/2002	1.75 to 4.23	8/1/08-23	9,700,000
Total Notes Payable				$ 22,523,000

c. The following is the schedule of Loans Payable at June 30, 2004:

Governmental Activities Loans Payable	Issue Date	Range of Interest Rates	Maturity Date	Amount Outstanding June 30, 2004
Downtown Development Authority	1991-1997	- %	-	$ 33,600,000
Loans Payable GE Capital Schedule - 009	10/30/2003	3.50	7/1/04-2/1/09	2,327,537
Loans Payable GE Capital Schedule - 010	10/30/2003	3.80	7/1/04-11-1-08	176,130
Loans Payable GE Capital Schedule - 011	11/15/2003	3.65	7/1/04-4/15/0/	14,320,318
Loans Payable GE Capital Schedule - 012	4/2/2004	3.61	8/1/04-4/1/09	491,400
Loans Payable GE Capital Schedule - 013	4/9/2004	4.07	7/1/04-6/1/14	1,285,029
Loans Payable GE Capital Schedule - 014	5/14/2004	4.07	7/1/04-6/1/09	529,661
Total Loans Payable				$ 52,730,075

d. The following is the schedule of Bonds Authorized and Unissued at June 30, 2004:

	Authorized (Note A)			
	Authority	Date	Amount	Unissued Amount
General Obligation Bonds (Tax Supported):				
Sewer Construction	Electorate	8/2/1960	$ 50,000,000	$ 24,000,000
Public Safety	Electorate	11/7/2000	12,000,000	9,070,000
Municipal Facilities	Electorate	11/7/2000	18,000,000	6,120,000
Public Lighting	Electorate	11/7/2000	30,000,000	17,935,000
Institute of Arts	Electorate	11/7/2000	25,000,000	9,850,000
Recreation and Zoo	Electorate	11/7/2000	56,000,000	30,975,000
Neighborhood and Economic Development	Electorate	11/7/2000	30,000,000	9,105,000
Histroical Museum	Electorate	11/6/2001	20,000,000	17,670,000
Museum of African American History	Electorate	4/29/2003	6,000,000	2,705,000
Total Bonds Authorized - Unissued				$ 127,430,000

Note A – The electorate approved an amendment to the State Constitution (the Headlee Amendment) November 7, 1978 that requires voter approval for the issuance of general obligation bonds effective December 22, 1978. The authority to issue bonds approved by the electors continues until revoked by the electors

e. Summary of Annual Principal and Interest Requirements for Bonds, Notes, and Other Debt Payable

	Primary Government				
	Principal				
		Business-type Activities			
Year Ending	Governmental Activities	Automobile Parking Fund	Water Fund	Sewage Disposal Fund	Total
2005	$ 72,033,883	$ 6,255,000	$ 22,440,000	$ 44,825,000	$ 73,520,000
2006	120,570,429	6,615,000	23,305,000	46,945,000	76,865,000
2007	102,237,191	7,105,000	25,470,000	49,850,000	82,425,000
2008	99,869,811	1,610,000	27,905,000	50,364,128	79,879,128
2009	123,738,235	1,670,000	29,235,000	53,725,000	84,630,000
2010-2014	307,426,305	9,980,000	171,020,000	292,483,965	473,483,965
2015-2019	153,684,185	13,360,000	221,985,000	322,654,361	557,999,361
2020-2024	69,845,000	8,605,000	280,810,000	368,745,145	658,160,145
2025-2029	-	9,500,000	355,040,000	504,345,000	868,885,000
2030-2034	-	2,400,000	452,085,000	641,215,000	1,095,700,000
2035	-	-	104,140,000	-	104,140,000
Total	$ 1,049,405,039	$ 67,100,000	$ 1,713,435,000	$ 2,375,152,599	$ 4,155,687,599

	Primary Government					
	Interest					
		Business-type Activities				
Year Ending	Governmental Activities	Automobile Parking Fund	Water Fund	Sewage Disposal Fund	Interest Rate Swaps, Net	Total
2005	$ 49,778,575	$ 2,366,670	$ 63,031,402	$ 82,994,190	$ 35,984,187	$ 184,376,449
2006	46,428,285	1,952,507	62,984,325	82,111,082	38,222,410	185,270,324
2007	42,931,980	1,573,985	61,964,260	80,141,782	38,931,751	182,611,778
2008	37,884,914	1,290,420	60,839,628	79,798,363	38,578,712	180,507,123
2009	32,724,895	1,226,448	59,613,418	75,653,698	38,389,414	174,882,978
2010-2014	99,660,834	5,163,563	276,727,182	349,000,086	181,142,795	812,033,626
2015-2019	54,631,934	2,950,026	235,587,665	306,498,097	159,515,037	704,550,825
2020-2024	7,091,833	974,652	198,833,363	235,215,796	127,258,406	562,282,217
2025-2029	-	417,809	151,051,823	137,450,600	73,503,346	362,423,578
2030-2034	-	2,083	72,437,771	39,101,591	30,308,232	141,849,677
2035	-	-	2,603,500	-	-	2,603,500
Total	$ 371,133,251	$ 17,918,163	$ 1,245,674,337	$ 1,467,965,285	$ 761,834,290	$ 3,493,392,075

The City entered into a loan payable with the Downtown Development Authority, a component unit, for $33.6 million. The loan was used to cover cost related to the Cobo Hall Expansion Project and operations of the Downtown People Mover System. The loan was unsecured and bears no interest and will be repaid by the City as general operating funds become available. As such, the loan payable has not been included in both governmental activities annual principle and interest requirements.

	Component Units	
Year Ending	Principal	Interest
2005	107,090,400	$ 109,081,049
2006	167,742,259	107,769,782
2007	123,973,424	101,843,985
2008	122,680,631	94,972,564
2009	133,784,165	90,434,341
2010-2014	456,900,792	353,751,301
2015-2019	251,257,120	315,174,019
2020-2024	227,565,426	252,735,432
2025-2029	484,438,879	180,362,422
2030-2034	227,200,000	24,980,500
2035	-	-
	$ 2,302,633,096	$ 1,631,105,395

f. Long-term Liabilities Activity for the Year Ended June 30, 2004

	Balance June 30, 2003	Increase	Decrease	Balance June 30, 2004	Amount Due Within One Year
Governmental Activities:					
Long-term debt:					
Convention Facility – Cobo					
Center Expansion Revenue Bonds	$ 123,000,000	$ 90,883,138	$ 78,515,000	$ 135,368,138	$ 10,355,000
Detroit Building Authority Bonds –					
Madison Center Project	12,780,304	-	1,366,478	11,413,826	1,491,872
Distribution State Aid Bonds	68,415,000	-	10,050,000	58,365,000	10,540,000
Self-insurance Limited Tax Bonds	28,870,000	98,895,000	28,870,000	98,895,000	-
General Obligation – General Bonds	489,800,000	54,790,000	32,305,000	512,285,000	22,600,000
General Obligation Limited Tax Bonds	67,540,000	102,830,000	12,545,000	157,825,000	16,990,000
Total General Fund Bonds	790,405,304	347,398,138	163,651,478	974,151,964	61,976,872
Federal note – Caraco Pharmaceutical					
Project	6,105,000	-	897,000	5,208,000	942,000
Federal note – Ferry Project	2,900,000	-	-	2,900,000	85,000
Federal note – Garfield Project	2,050,000	-	105,000	1,945,000	105,000
Federal note – Michigan Repacking					
Project	1,335,000	-	45,000	1,290,000	1,290,000
Federal note – Riverbend Project	1,230,000	-	80,000	1,150,000	80,000
Federal note – Stuberstone Project	345,000	-	15,000	330,000	15,000
Federal note - New Amsterdam Project	9,700,000	-	-	9,700,000	-
Loan payable to Downtown					
Development Authority	33,600,000	-	-	33,600,000	-
Loan payable – GE Capital – Airport	118,202	-	118,202	-	-
Loan payable – GE Capital – Cobo Hall					
Energy System	9,729,106	-	9,729,106	-	-
Loan payable – GE Capital – Election					
System	1,336,649	-	1,336,649	-	-
Loan payable – GE Capital – Fire	1,345,708	-	1,345,708	-	-
Loan payable – GE Capital ITS - Unisys	7,360,070	-	7,360,070	-	-
Loan payable – GE Capital – Income Tax	378,929	-	378,929	-	-
Loan payable – IBM Credit Corporation	11,702,252	-	11,702,252	-	-
Loan payable – GE Capital Schedule-009	-	2,500,250	172,713	2,327,537	475,336
Loan payable – GE Capital Schedule-010	-	200,728	24,598	176,130	37,996
Loan payable – GE Capital Schedule-011	-	19,525,824	5,205,506	14,320,318	6,722,475
Loan payable – GE Capital Schedule-012	-	491,400	-	491,400	106,899
Loan payable – GE Capital Schedule-013	-	1,286,250	1,221	1,285,029	99,504
Loan payable – GE Capital Schedule-014	-	536,698	7,037	529,661	97,801
Total Governmental Notes and Loans	89,235,916	24,541,150	38,523,991	75,253,075	10,057,011
Total Long-Term Bonds, Notes, and Loans	879,641,220	371,939,288	202,175,469	1,049,405,039	72,033,883
Other Long-Term Obligations:					
Accrued Compensated Absences	135,809,088	28,094,015	23,432,088	140,471,015	4,236,630
Claims and Judgments	111,151,465	82,474,865	71,753,756	121,872,574	6,148,836
Workers' Compensation	67,653,774	35,244,717	37,481,113	65,417,378	16,556,000
Total Other Long-Term Obligations	314,614,327	145,813,597	132,666,957	327,760,967	26,941,466
Total Governmental Long-Term Obligations	$ 1,194,255,547	$ 517,752,885	$ 334,842,426	$ 1,377,166,006	$ 98,975,349

Note: The City has recognized a liability in the general fund of $706,105 for compensated absences, $6,148,836 for claims and judgments, and $2,656,180 for workers compensation as of June 30, 2004 for amounts that were due as of year end. The remaining compensated absences, claims and judgments, and workers compensation claims liability and all other long-term obligations are considered to be general long-term liabilities and are recognized only in the government-wide financial statements.

	Balance June 30, 2003	Increase	Decrease	Balance June 30, 2004	Amount Due Within One Year
Business-type Activities					
Major Funds:					
Long-term Debt and Obligations:					
Automobile Parking Fund:					
Bonds Payable	$ 73,315,000	$ -	$ (6,215,000)	$ 67,100,000	$ 6,255,000
Accrued Compensated Absences	280,830	166,263	-	447,093	199,469
Sewage Disposal Fund:					
Bonds Payable	2,311,620,907	206,121,692	(142,590,000)	2,375,152,599	44,825,000
Accrued Compensated Absences	9,965,977	2,345,824	(153,538)	12,158,263	6,051,544
Accrued Public Liability and Workers' Compensation	4,844,529	1,543,501	(1,181,346)	5,206,684	1,181,346
Water Fund:					
Bonds Payable	1,718,985,000	240,600,000	(246,150,000)	1,713,435,000	22,440,000
Accrued Compensated Absences	13,925,849	1,810,212	(146,540)	15,589,521	9,984,576
Accrued Public Liability and Workers' compensation	13,778,575	6,756,198	(4,756,519)	15,778,254	4,756,519
Transportation Fund:					
Accrued Compensated Absences	3,847,975	-	(117,814)	3,730,161	2,984,129
Accrued Public Liability and Workers' Compensation	2,236,047	1,312,053	-	3,548,100	709,620
Non-major Funds:					
Accrued Compensated Absences	2,052,115	-	(1,584,837)	467,278	171,351
Accrued Public Liability and Workers' Compensation	5,000,107	-	(4,877,458)	122,649	10,933
Total Bonds Payable	4,103,920,907	446,721,692	(394,955,000)	4,155,687,599	73,520,000
Total Accrued Compensated Absences	30,072,746	4,322,299	(2,002,729)	32,392,316	19,391,069
Total Public Liability and Workers' Compensation	25,859,258	9,611,752	(10,815,323)	24,655,687	6,658,418
Total Long-term Debt and Obligations	$ 4,159,852,911	$ 460,655,743	$ (407,773,052)	$ 4,212,735,602	$ 99,569,487
Component Units					
School District of the City of Detroit:					
Bonds, Notes and Leases Payable	$ 1,549,347,195	$ 51,789,928	$ (57,586,140)	$ 1,543,550,983	$ 43,208,483
Accrued Compensated Absences	153,729,484	-	(6,036,800)	147,692,684	2,325,877
Accrued Public Liability and Workers' Compensation	56,268,822	159,773,219	(159,640,342)	56,401,699	-
	1,759,345,501	211,563,147	(223,263,282)	1,747,645,366	45,534,360
Other Component Units:					
Bonds, Notes and Leases Payable	804,477,841	23,360,101	(68,685,526)	759,152,416	63,881,917
Total Accrued Compensated Absences	2,845,211	3,031,790	(691,897)	5,185,104	477,328
Accrued Public Liability and Workers' Compensation	290,515	297,297	-	587,812	324,506
	$ 807,613,567	$ 26,689,188	$ (69,377,423)	$ 764,925,332	$ 64,683,751

5. Derivatives not reported at fair value

The City is party to derivative financial instruments consisting of interest rate swaps that are intended to effectively convert variable-rate debt to fixed-rate debt. These are not reported at fair value on the statement of net assets at June 30, 2004.

Objective of the swaps. In order to better manage its interest rate exposure and to reduce the overall costs of its borrowing, the City has entered into 25 separate fixed payor interest rate swaps.

Terms, fair values, and credit risk. Certain key terms, fair market values, and counter-party credit ratings relating to the outstanding swaps as of June 30, 2004, are presented below. The notional amounts of the swaps, except those with effective dates of 4/1/05, 9/1/06, and 3/1/07 match the principal amounts of the outstanding debt. The swaps with effective dates of 4/1/05, 9/1/06, and 3/1/07, were entered into to hedge future interest rate risk and will be associated with bonds expected to be issued prior to the effective dates. Except as discussed under rollover risk, the City's swap agreements contain scheduled reductions to outstanding notional amounts that match scheduled or anticipated amortization of associated bonds.

Associated Bond Issue	Notional Amounts (1)	Effective Date	Fixed Rate Paid	Variable Rate Received	Fair Values	Swap Termination Date	Final Maturity of Bonds	Counterparty Credit Rating
Building Authority Series 1999-A	$28,300,000	10/22/1999	7.48%	LIBOR BBA IMT+.28%	-11,170,783	7/1/2029	7/1/2029	Aa1/AA-/AA+
Sewage 1998-A	68,000,000	12/10/1998	4.51%	BMA (2)	-5,985,380	7/1/2023	7/1/2023	Aa2/AA-/NR
Sewage 1998-B	67,900,000	12/10/1998	4.51%	BMA	-5,970,646	7/1/2023	7/1/2023	Aa2/AA-/NR
Water 2001-C (3)	47,723,000	6/7/2001	4.07%	BMA	-1,813,209	1/1/2006	7/1/2029	Aaa/AA+/NR
Water 2001-C (3)	30,032,000	6/7/2001	4.70%	BMA	-2,456,809	7/1/2011	7/1/2029	Aaa/AA+/NR
Water 2001-C (3)	47,628,000	1/1/2006	5.42%	BMA	-3,142,701	7/1/2011	7/1/2029	Aaa/AA+/NR
Water 2001-C	114,150,000	6/7/2001	4.90%	BMA	-14,671,784	7/1/2026	7/1/2026	Aa3/A+/AA-
Sewage 2001 C-1	156,500,000	10/23/2001	4.43%	BMA	-15,608,636	7/1/2027	7/1/2027	Aa2/AA+/AAA
Sewage 2001 C-2	124,500,000	10/23/2001	4.47%	BMA	-7,917,564	7/1/2029	7/1/2029	Aa2/AA+/AAA
Water 2003-B	1,980,000	1/30/2003	3.02%	CPI + 1.01%	35,471	7/1/2009	7/1/2009	Aa3/A+/AA-
Water 2003-B	2,290,000	1/30/2003	3.31%	CPI+ 1.12%	34,077	7/1/2010	7/1/2010	Aa3/A+/AA-
Water 2003-B	2,500,000	1/30/2003	3.55%	CPI + 1.25%	35,834	7/1/2011	7/1/2011	Aa3/A+/AA-
Water 2003-B	2,175,000	1/30/2003	3.74%	CPI+ 1.33%	27,647	7/1/2012	7/1/2012	Aa3/A+/AA-
Water 2003-B	2,800,000	1/30/2003	3.87%	CPI +1.34%	25,667	7/1/2013	7/1/2013	Aa3/A+/AA-
Water 2003-B	2,505,000	1/30/2003	4.00%	CPI + 1.36%	11,590	7/1/2014	7/1/2014	Aa3/A+/AA-
Water 2003-C	2,005,000	1/30/2003	3.87%	CPI + 1.34%	18,214	7/1/2013	7/1/2013	Aa3/A+/AA-
Water 2003-C	2,330,000	1/30/2003	4.00%	CPI + 1.36%	10,747	7/1/2014	7/1/2014	Aa3/A+/AA-
Water 2003-D	150,965,000	2/6/2003	4.06%	BMA	-5,616,502	7/1/2013	7/1/1933	Aa2/AA-/NR
Sewage 2003-B	150,000,000	5/22/2003	4.14%	BMA	-6,647,282	7/1/2013	7/1/1933	Aa2/AA+/AAA
Water 2004-A	77,010,000	5/13/2004	3.94%	BMA	-2,156,755	7/1/2025	7/1/2025	Aa2/AA-/NR
Water 2004-B	163,590,000	5/13/2004	3.85%	BMA	-3,771,652	7/1/2023	7/1/2023	Aa2/AA-/NR
Water Forward Starting Swap	195,000,000	4/1/2005	4.71%	BMA	-3,044,079	7/1/2036	N/A	Aa3/A+/AA-
Water Forward Starting Swap	120,000,000	3/1/2007	5.00%	BMA	-1,684,838	7/1/2035	N/A	Aa3/A+/AA-
Sewage Hedge Swap	137,500,000	4/1/2005	4.80%	BMA	-2,981,432	7/1/2035	N/A	Aa2/AA+/AAA
Sewage Hedge Swap	125,000,000	9/1/2006	4.96%	BMA	-1,479,489	7/1/2036	N/A	Aa2/AA+/AAA

1. Notional amount balance as of July 1, 2004
2. The Bond Market Association Municipal Swap Index ™.
3. Denotes that the swap termination date does not match the final maturity of the bonds.

Fair Value: Because interest rates have generally declined since the time the swaps were negotiated, most of the City's swaps have a negative fair value as of June 30, 2004. The negative fair values may be countered by lower total interest payments required under the variable-rate bonds, creating lower synthetic interest rates.

Credit Risk: As of June 30, 2004, the City was not exposed to net credit risk because the swaps had net negative fair values. However, should interest rates change and fair values of the swaps become positive, the City would be exposed to credit risk in the amount of the derivatives' positive fair value.

The swap agreements contain varying collateral agreements with the counterparties. The swaps require full collateralization of the fair value of the swap should the counterparty's credit rating fall below certain rating levels by Fitch Ratings, Standard & Poor's, and/or Moody's Investors Service. Collateral on all swaps is to be in the form of U.S. government securities held by a third-party custodian.

Basis Risk: The City is not exposed to significant basis risk on its swaps because most of the variable payments received are based on the BMA index. The CPI indexed swaps are associated with CPI indexed bonds and thus create no basis risk. The LIBOR based swap has basis risk on $28.3 million of swaps.

(Continued)

Termination Risk: The City or counterparty may terminate any of the swaps if the other party fails to perform under the terms of the contract. In such cases, the City may owe or be due a termination payment depending on the value of the swap at that time. In addition, the City is exposed to termination risk, but not termination payments, on certain of the City's swaps related to Water Series 2001C, Water Series 2003D, Water Series 2004-A, Water Series 2004-B, Sewer Series 1998A, Sewer Series 1998B, Sewer Series 2001-C-1, Sewer Series 2001C-2 and Sewer Series 2003B. These swaps provide the counterparty with the option to terminate the swap agreement beginning on 01/01/2010, 07/02/2011, 07/01/2005, 07/01/2005, 07/01/2008, 07/01/2008, 01/01/2010, 01/01/2010, and 07/01/2013, respectively, upon the passing of certain BMA thresholds. If any of these swaps are terminated, the associated variable-rate bonds would no longer carry synthetic interest rates, but there would be no termination payment.

Rollover Risk: The City is exposed to rollover risk on swaps that mature or may be terminated prior to the maturity of the associated debt. When these swaps terminate, or in the case of the termination option, if the counterparty exercises its option, the City will not realize the synthetic rate offered by the swaps on the underlying debt issues.

6. Other Information

Automobile Parking Fund

The City has covenanted in bond authorizing documents to charge for the use of and services provided by the City of Detroit Building Authority Parking Arena System (the System) for each fiscal year of the City such that the gross revenues collected and remitted to the trustee (1) will be at least sufficient to at all times pay when due the principal, interest, and sinking fund installments on the revenue bonds without recourse to the Debt Reserve Account, to pay or provide for all operating expenses, to maintain the System in good repair without recourse to the Operating and Contingency Reserve Fund, and to replenish the Debt Reserve Account (so as to satisfy the corresponding reserve requirement) and the Operating and Maintenance Reimbursement Fund, and (2) will, after replenishment of any deficit in the Debt Reserve Account, Operating and Contingency Reserve Fund, and the Operating and Maintenance Reimbursement Fund, be equal to or greater than 175% of the amount payable in such fiscal year as the principal of sinking fund installments for the interest on all revenue bonds, net of amounts capitalized for interest payable during the construction period.

`The City has covenanted further that if the fees and charges collected in any fiscal year are not sufficient to produce such revenues, the City will employ a consulting expert to submit recommendations as to revision of the schedule of fees then in effect and the City will thereafter charge and collect fees in accordance with such recommendation. The schedule of charges for the System may not be revised for a period of two years unless (1) such revision is for purpose of complying with the aforesaid rate covenant or, simu ltaneous with such revision, there is filed with the trustee a certificate of the consulting expert stating the opinion that if such revision had been in effect during the whole of the fiscal year immediately prior thereto, the revenues collected during such fiscal year would not have been diminished, and (2) at the time of any reduction in charges, the amounts in the Debt Reserve Account and Operating and Contingency Reserve Fund equal or exceed the reserve requirements.

The revenue bond documents specify that additional bonds may be issued by the Fund for the purpose of financing additions, replacements, and improvements to the City of Detroit Building Authority Parking Arena System, provided that the trustee shall have received all legally required authorized opinions and certificates and that the estimated gross revenues (as defined in the bond authorizing documents) for the five years following completion of the facilities will be at least (1) 175% of annual debt service on all parity outstanding bonds, or (2) the sum of annual debt service on all parity outstanding bonds (including the Additional Bonds) plus the amount necessary to make all required payments to the various funds maintained by the trustee, whichever is greater. Other than as described above, the Fund may not issue any obligations secured by gross revenues from the System unless any resulting lien on the System's gross revenues is expressly subordinate to liens for the bondholders' or bank's benefit as described above.

Sewage Disposal and Water Funds Construction Programs

The Sewage Disposal Fund is engaged in a variety of projects that are part of a five-year Capital Improvement Program (the Program). The total cost of this Program is anticipated to be approximately $2.1 billion through fiscal year 2007. The Program is being primarily financed from revenues of the Fund and proceeds from the issuance of revenue bonds.

The Sewage Disposal Fund total construction contract commitments outstanding at June 30, 2004 were approximately $647 million.

The Water Fund is engaged in a variety of projects that are part of a five-year Capital Improvement Program (the Program). The total cost of this Program is anticipated to be approximately $1.6 billion through fiscal year 2007. The Program is being primarily financed from revenues of the Fund and proceeds from the issuance of revenue bonds.

The Water Fund total construction contract commitments outstanding at June 30, 2004 were approximately $238 million.

Pension Plans:

The City of Detroit Retirement System consists of the General Retirement System (GRS) and the Policemen and Firemen Retirement System (PFRS). Each system is a single-employer plan composed of a Defined Benefit Plan and a Defined Contribution Annuity Plan. The plans provide retirement, disability, and death benefits to plan members and beneficiaries. The Systems issued publicly available financial reports that include financial statements and the required supplementary information. The reports can be obtained at 2 Woodward Avenue, Coleman A. Young Municipal Center, Room 908.

These plans are administered in accordance with the City of Detroit Charter and union contracts, which assign the authority to establish and amend contributions and benefit provisions to each plan's Board of Trustees. The Systems' investment policies are governed in accordance with the State of Michigan Public Act 314 of 1965, as amended.

The plans' financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the City has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable, in accordance with the terms of each plan.

Plan investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at last reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments and are discounted at prevailing interest rates for similar investments. Investments that do not have an established market are reported at estimated fair value.

The City's policy is to fund normal costs and amortization of prior service costs. The City is required to contribute at an actuarially determined rate. The current rate is up to 27.34% of active annual payroll for the General Retirement System (depending on the bargaining unit) and 27.68% of active annual payroll for the Policemen and Firemen Retirement System. Contributions from City funds and the Library, including accounts receivable for the year ended June 30, 2004, amounted to $95,876,076 and $69,475,202 for the General Retirement System and the Policemen and Firemen Retirement System, respectively.

Employee contributions for annuity savings are as follows:

- General Retirement System — Employees may elect to contribute 3%, 5%, or 7% of the first $87,900 of annual compensation and 5% or 7 % of any excess over $87,900. Contributions are voluntary for all union and non-union employees.

- Policemen and Firemen Retirement System— Mandatory contributions are 5% of base compensation until eligibility for retirement is reached.

Contributions received from employees during the year ended June 30, 2004 amounted to $24,290,278 and $10,318,299 for the General Retirement System and the Policemen and Firemen Retirement System, respectively.

The contribution requirements of plan members and the City of Detroit are established and may be amended by the Board of Trustees in accordance with the City Charter, union contracts, and plan provisions.

General Retirement System members may retire with full benefits after attaining 30 years of service; age 55 with 30 years of service if hired after January 1, 1996; age 60 with 10 years of service; or age 65 with 8 years of service. Employees may retire after 25 years of service and collect an actuarially reduced retirement benefit.

Police officers and firefighters hired prior to January 1, 1969 may retire after 25 years of service with full benefits and an escalator clause for future increases. Police officers and firefighters hired after January 1, 1969 may retire after twenty-five (25) years of service with full benefits and a yearly cost-of-living adjustment of 2.25%.

Members of the General Retirement System who separated prior to July 1, 1981, met the age and service requirements, and who did not withdraw their accumulated annuity contributions are generally eligible for a pension at the time they would have been eligible had they continued in City employment. Members who separate after July 1, 1981 are not required to leave their accumulated annuity contributions in the System.

Members of the Policemen and Firemen Retirement System who separated prior to July 1, 1982, met the age and service requirements, and who did not withdraw their accumulated annuity contributions are generally eligible for a pension at the time they would have been eligible had they continued in City employment. Members who separate after July 1, 1982 and meet the age and service requirements are able to withdraw their accumulated contributions and remain eligible for a benefit.

Monthly pension benefits, which are subject to certain minimum and maximum amounts, are determined according to fixed rates per year of credited service. Pension benefits for all members of the General Retirement System are increased annually by 2.25% of the original pension. For those members of the Policemen and Firemen Retirement System who were hired after January 1, 1969, pension benefits are increased annually by 2.25% of the original pension. Police officers and firefighters hired before January 1, 1969 may elect at retirement increases based upon pay increases of active members or annual increases of 2.25% of the original pension.

Employee contributions to both systems for annuity savings may be withdrawn upon separation from the City. At retirement, members have the option to withdraw all or part of their accumulated annuity contributions plus interest in either a lump sum or to receive monthly annuity payments. Employees in both systems may withdraw their annuity balance if they have accumulated 25 years of service. The following details the schedule of employer contributions (in millions):

(Continued)

General Retirement System				Policemen and Firemen Retirement System			
Year Ended June 30	Annual Pension Costs	Percentage Contributed	Net Pension Obligation	Year Ended June 30	Annual Pension Costs	Percentage Contributed	Net Pension Obligation
1999	55.7	100	—	1999	15.7	100	—
2000	66.7	100	—	2000	20.0	100	—
2001	68.1	100	—	2001	14.4	100	—
2002	67.8	100	—	2002	8.4	100	—
2003	72.9	100	—	2003	66.8	100	—
2004	95.9	92	—	2004	69.5	—	—

Classes of Employees: The GRS covers all eligible employees other than police officers and firefighters, who are covered by the PFRS.

The plans' membership consisted of the following at June 30, 2004, the date of the latest actuarial valuation:

	Defined Benefit		Defined Annuity Contributions	
	GRS	PFRS	GRS	PFRS
Retirees and beneficiaries receiving benefits	11,332	8,695	1,562	1,419
Terminated plan members entitled to but not yet receiving benefits	1,547	33	165	5
Active plan members	12,312	5,177	11,025	4,760

Cash and Investments: Cash balances for the two systems are held in financial institutions insured as members of FDIC in the Systems' name. As of June 30, 2004, the carrying amounts of $8,051,609 for the General Retirement System and $1,259,681 for the Policemen and Firemen Retirement System were equal to bank balances. Of the bank balance, $113,000 for the GRS and $94,000 for the PFRS is covered by federal depository insurance. The remaining balance is uninsured.

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 3, the Systems' investments are categorized to give an indication of the level of custodial risk assumed by the Systems at June 30, 2004.

Category 1: Includes investments insured or registered, and held by an agent in the City's name.

Category 2: Includes investments, which are uninsured, unregistered, and held by an agent in the City's name.

N/A: Those investments identified by N/A are not categorized because they represent pooled funds.

The Retirement Systems have adopted an official investment policy that is in accordance with state statute. Authorized investments include U.S. Government obligations, certificates of deposit, savings and depository accounts of insured institutions, commercial paper of certain investment quality, bankers' acceptances, repurchase agreements, mutual funds of certain investment quality, secured lease obligations, real and personal property, small business and venture capital firms, preferred stock, common stock, and other investments not excluded by state statute, limited as to portfolio share.

The Systems invest in mortgage-backed securities. These securities are reported at fair value in the balance sheet and are based on the cash flows from interest and principal payments by the underlying mortgages. As a result, they are sensitive to prepayments by mortgages, which may result from a decline in interest rates. For example, if

interest rates decline and homeowners refinance mortgages, thereby prepaying the mortgages underlying these securities, the cash flow from interest payments is reduced and the value of these securities declines. Likewise, if homeowners pay on mortgages longer than anticipated, the cash flows are greater and the return on the initial investments would be higher than anticipated. The Systems invest in mortgage-backed securities to diversify the portfolio and to increase the return while minimizing the extent of risk.

Below is a description of the investments by type and category at June 30, 2004.

Investment		Category
General Retirement System:		
Short-term Investments	$ 82,198,405	2
Stocks	1,553,816,583	1
Bonds	300,707,194	1
Mortgage-backed Securities	59,636,979	1
Mortgage and Construction Loans	133,005,232	1
Equity Interest in Real Estate	77,971,839	1
Pooled Investments	93,010,892	N/A
Private Placements	253,656,948	2
Total	$ 2,554,004,072	
Policemen and Firemen Retirement System:		
Short-term Investments	$ 71,444,467	2
Stocks	1,670,466,391	1
Bonds	608,197,193	1
Mortgage-backed Securities	65,910,437	1
Mortgage and Construction loans	110,140,189	1
Equity Interest in Real Estate	88,390,272	1
Real Estate Investment Trusts	28,522,443	2
Pooled Investments	363,858,019	N/A
Private Placements	48,495,074	2
Total	$ 3,055,424,485	

Securities Lending: Under the provisions of Securities Lending Authorization Agreements, the Retirement Systems lend securities to broker-dealers and banks for collateral that will be returned for the same securities in the future. The Systems' custodial banks manage the securities lending program and receive cash, securities, and irrevocable bank letters of credit as collateral. The custodial banks do not have the ability to pledge or sell collateral securities unless the borrower defaults. Borrowers are required to deliver collateral for each loan equal to but not less than 100% of the market value of the loaned securities.

The Systems did not impose any restrictions during the fiscal year on the amount of the loans that the custodial banks made on its behalf, and the custodial banks indemnified the Systems by agreeing to purchase replacement securities or return cash collateral in the event a borrower failed to return the loaned security or pay distributions thereon. There were no such failures by any borrowers during the fiscal year. Moreover, there were no losses during the fiscal year resulting from default of the borrowers or the custodial banks. The Systems and the

borrowers maintain the right to terminate all securities lending transactions on demand. The cash collateral received on each loan is invested in two separate collective investment pools. The average duration of each investment pool as of June 30, 2004 was 55 days. Because the loans were terminable at will, their duration did not generally match the duration of the investments made with cash collateral. On June 30, 2004, the Systems had no credit risk exposure to borrowers. The collateral held and the market value of securities on loan for the System as of June 30, 2004 was $238,757,976 and $232,701,006 for the GRS and $651,046,471 and $634,957,695 for the PFRS respectively.

For accounting purposes, the statements of net assets and changes in net assets in the fiduciary funds reflect the increase in assets, liabilities, interest income, and expense associated with securities lent.

Investment loss presented in the statement of changes in fiduciary net assets for the Retirement System consist of interest income, dividend income, net depreciation, and investment expenses. GRS and PFRS were unable to break down each component by reserve fund as required in GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans;* however, the Systems were able to present components in total:

	GRS	PFRS
Investment Gain, Net:		
Dividend Income	$ 24,046,920	$ 26,979,547
Interest Income	86,137,211	83,333,335
Net Apppreciation	237,895,378	317,767,620
Investment Expense	(11,496,468)	(12,379,319)
Total	$ 336,583,041	$ 415,701,183

Other Post-employment Benefits: In addition to the pension benefits described above, the City provides post-retirement benefits to its retirees, which include hospitalization, dental care, eye care, and life insurance. The number of City retirees at June 30, 2004 is 20,027. Costs are accounted for in accordance with GASB Statement No. 12, *Disclosures of Information on Post-retirement Benefits Other Than Pension Benefits by State and Local Governmental Employers*. The benefits are provided in accordance with the City Charter and union contracts. The costs of benefits, which are financed on a pay-as-you-go basis, for the year ended June 30, 2004, are as follows:

Benefit	City Cost	Retiree Cost	Total Cost
Hospitalization	$ 136,840,848	$ 14,273,870	$ 151,114,718
Dental	6,720,554	—	6,720,554
Eye Care	2,218,589	—	2,218,589
Life Insurance	143,235	26,690	169,925
Total	$ 145,923,226	$ 14,300,560	$ 160,223,786

Significant actuarial assumptions used in preparing the accompanying Systems' financial statements for the year ended June 30, 2003 follow:

	General Retirement System	Policemen and Firemen Retirement System
Valuation Date	June 30, 2003	June 30, 2003
Actuarial Cost Method	Entry Age	Entry Age
Amortization Method	Level Percent	Level Percent
Remaining Amortization Period	15 years	14 years
Asset Valuation Method	3-year Smoothed Market	3-year Smoothed Market
Actuarial Assumptions:		
Investment Rate of Return	7.9%	7.8%
Projected Salary Increases	4.0% - 9.5%	5.8% - 10.8%
Includes Inflation at	4.0%	4.8%
Cost-of-Living Adjustments	2.25%	2.25%

Factors that significantly affect the identification of trends in the amounts reported include, for example, changes in benefit provisions, the size or composition of the population covered by the plans, or the actuarial methods and assumptions used.

Component Units

The GDRRA is authorized to charge user fees for services provided to residents in the event either the tipping fees or supplemental tipping fees paid by the City and other revenues generated are not sufficient in each operating year to produce revenues equal to at least 100% of the maximum annual debt service requirement, lease obligations, and operating costs. Supplemental tipping fees are provided from certain taxes collected by the State of Michigan which are payable to the City (Distributable Aid). The City's obligation to pay tipping fees and supplemental tipping fees is a full faith and credit limited tax general and unconditional obligation whether or not the facility is operating.

For the year ended June 30, 2004, tipping fees and supplemental tipping fees paid by the City to the GDRRA are as follows:

Tipping Fees	$	54,909,343
Supplemental Tipping Fees		16,237,538
Total	$	71,146,881

Special Item:

On July 31, 2002 the City revised its Development Agreements with the Casinos operating within the city. As a result, the casinos agreed to pay the City an additional $132 million in exchange for the right to defer the construction of 400 hotel rooms each for five years. All of this revenue was recognized in the entity-wide Statement of Activities, and $93,750,000 was recognized in the fund financial statements in fiscal year ending 2003. The remaining $38,250,000 is recognized as revenue in the fund financial statements in fiscal year ending 2004.

NOTE IV. SUBSEQUENT EVENTS

On August 27, 2004 the City of Detroit issued $111,680,000 Unlimited Tax General Obligation Bonds and General Obligation Refunding Bonds. The bonds also refunded $69.1 million of previously issued debt, resulting in present value savings of $423,241 or 0.62% of the refunded par amount. The bonds begin to mature April 1, 2009 and will be fully matured in the year 2024.

On August 27, 2004 the City of Detroit issued $62,285,000 General Obligation Self-Insurance Bonds (Limited Tax) (Federally Taxable). The bonds begin to mature April 1, 2009 and will be fully matured in the year 2014.

On January 5, 2005 the City of Detroit issued $81,050,000 General Obligation Refunding Bonds. The bonds refunded a portion of previously issued debt resulting in present value savings of $2,954,135 or 3.65% of the refunded par amount. The Bonds begin to mature April 1, 2006 and will fully mature in the year 2011.

In March 2005, Standard and Poor's revised to the City of Detroit bond ratings, from A- to BBB+ on both the City's Limited and Unlimited Tax General Obligation Bonds, while affirming the City's outlook as stable.

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REQUIRED SUPPLEMENTARY INFORMATION

REQUIRED SUPPLEMENTAL INFORMATION
HISTORIC PENSION DATA - UNAUDITED

Schedule of Employer Contributions (In millions):

General Retirement System			Policemen and Firemen Retirement System		
Year Ended June 30	Annual Required Contributions	Percentage Contributed	Year Ended June 30	Annual Required Contributions	Percentage Contributed
1999	$55.7	100	1999	$15.7	100
2000	66.7	100	2000	20.0	100
2001	68.1	100	2001	14.4	100
2002	67.8	100	2002	8.4	100
2003	72.9	100	2003	66.8	100
2004	95.9	92	2004	69.5	-

Schedule of Funding Progress (In millions):

General Retirement System:

Actuarial Valuation Date June 30	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio	Unfunded AAL (UAAL)	Covered Payroll	UAAL as a Percentage of Payroll
1999 (a) (b)	$2,756.6	2,900.4	95.0	143.8	383.4	37.5
2000 (a) (b)	2,902.4	3,077.0	94.3	174.6	417.2	41.8
2001 (a) (b)	2,912.1	3,179.6	91.6	267.5	439.6	60.8
2002	2,761.2	3,276.6	84.3	515.4	440.7	117.0
2003	2,537.7	3,270.6	77.6	733.0	448.6	163.4

Policemen and Firemen Retirement System:

Actuarial Valuation Date June 30	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio	Unfunded AAL (UAAL)	Covered Payroll	UAAL as a Percentage of Payroll
1999 (a) (b)	$3,668.4	3,274.1	112.0	(394.3)	216.0	-
2000 (a) (b)	3,964.2	3,342.1	118.6	(622.1)	237.7	-
2001 (a) (b)	3,900.0	3,463.2	112.6	(436.8)	253.3	-
2002 (a)	3,635.1	3,523.4	103.2	(111.7)	248.7	-
2003	3,205.5	3,721.6	86.1	516.1	248.7	207.5

a) After changes in actuarial assumptions.
b) Plan amended.

APPENDIX D

GLOBAL BOOK-ENTRY SYSTEM

General

The description that follows of the procedures for record keeping about beneficial ownership of the Certificates, payment of principal of and interest on the Certificates, confirmation and transfer of beneficial ownership interests in the Certificates, and other securities-related transactions is based solely on information furnished by DTC, Clearstream, and Euroclear and has not been independently verified by the City, the Service Corporations, the Funding Trust or the Underwriters.

Beneficial owners of the Certificates may hold their certificates through DTC, which is located in the United States, or Clearstream or Euroclear, which are in Europe, if they are participants of one of those systems, or indirectly through organizations that are participants in any of those systems.

DTC will act as a securities depository for the Certificates. Clearstream and Euroclear will hold omnibus positions, on behalf of their respective participants (**Participants**), through customers' securities accounts in Clearstream's and Euroclear's names on the books of their respective depositories (collectively, **Depositories**), which in turn will hold such positions in customers' securities accounts in the names of their respective Depositories on the books of DTC.

DTC

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC holds securities that its Participants deposit with it. DTC also facilitates the post-trade settlement among DTC Participants of sales and other securities transactions in deposited securities, through electronic book-entry transfers and pledges between DTC Participants' accounts. This eliminates the need for physical movement of securities certificates. DTC Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. Indirect access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies (**Indirect Participants**) that clear through or maintain a custodial relationship with a DTC Participant, either directly or indirectly. The rules applicable to DTC and its DTC Participants are on file with the SEC.

Transfers between DTC Participants will occur in accordance with DTC rules. Transfers between Clearstream Participants and Euroclear Participants will occur in the ordinary way in accordance with their applicable rules and operating procedures.

Cross-market transfers between persons holding directly or indirectly through DTC, on the one hand, and directly or indirectly through Clearstream Participants or Euroclear Participants, on the other, will be effected in DTC in accordance with DTC rules on behalf of the relevant European international clearing system by its Depository; however, such cross-market transactions will require delivery of instructions to the relevant European international clearing system by the counterparty in such system in accordance with its rules and procedures and within its established deadlines based on European time. The relevant European international clearing system will, if the transaction meets its settlement requirements, deliver instructions to its Depository to take action to effect final settlement on its behalf by delivering or receiving securities in DTC, and making or receiving payment in accordance with normal procedures for same-day funds settlement applicable to DTC. Clearstream Participants and Euroclear Participants may not deliver instructions directly to the Depositories.

Because of time-zone differences, credits of securities in Clearstream or Euroclear as a result of a transaction with a DTC Participant will be made during the subsequent securities settlement processing, dated the business day following the DTC settlement date, and such credits or any transactions in such securities settled during such processing will be reported to the relevant Clearstream Participant or Euroclear Participant on such business day. Cash received in Clearstream or Euroclear as a result of sales of securities by or through a Clearstream Participant or a Euroclear Participant to a DTC Participant will be received with value on the DTC settlement date but will be available in the relevant Clearstream or Euroclear cash account only as of the business day following settlement in DTC. Day traders who use Clearstream or Euroclear and who purchase the Certificates from DTC Participants for delivery to Clearstream Participants or Euroclear Participants should note that these trades may fail on the sale side unless affirmative actions are taken. Participants should consult with their clearing system to confirm that adequate steps have been taken to assure settlement.

Purchases of Certificates under the DTC system must be made by or through DTC Participants, which will receive a credit for the Certificates on DTC's records. The ownership interest of each actual owner of a Certificate (**Beneficial Owner**) is in turn to be recorded on the DTC Participants' and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the DTC Participant or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Certificates are to be accomplished by entries made on the books of DTC Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interest in Certificates, except when use of the book-entry system for the Certificates is discontinued.

To facilitate subsequent transfers, all Certificates deposited by DTC Participants with DTC are registered in the name of DTC's nominee, Cede & Co. The deposit of Certificates with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Certificates; DTC's records reflect only the identity of the DTC Participants to whose accounts such Certificates are credited, which may or may not be the Beneficial Owners. The DTC Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Because DTC can only act on behalf of DTC Participants, who in turn act on behalf of Indirect Participants and some other banks, the Beneficial Owner of a Certificate may be limited in its ability to pledge Certificates to persons or entities that do not participate in the DTC system, or to otherwise take actions with respect to those Certificates due to the lack of a physical certificate for those Certificates.

Conveyance of notices and other communications by DTC to DTC Participants, by DTC Participants to Indirect Participants, and by DTC Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners may desire to make arrangements with a DTC Participant or an Indirect Participant so that all notices of redemption of their Certificates or other communications to DTC which affect these Beneficial Owners, and notification of all interest payments, will be forwarded in writing by the DTC Participant or Indirect Participant. Any failure of DTC to advise any DTC Participant, or of any DTC Participant or Indirect Participant to advise a Beneficial Owner, of any notice of redemption or its content or effect will not affect the validity of the redemption of Certificates called for redemption or any other action premised on such notice.

Neither DTC nor Cede & Co. will consent or vote with respect to the Certificates. Under its usual procedures, DTC mails an omnibus proxy to the issuer as soon as possible after the record date, which assigns Cede & Co.'s consenting or voting rights to those DTC Participants to whose accounts the Certificates are credited on the record date, identified in an attached listing.

Principal and interest payments on the Certificates will be made to DTC. DTC's practice is to credit the accounts of the DTC Participants, upon DTC's receipt of funds and corresponding detail information from the Trustee, on payment dates in accordance with their respective holdings shown on the records of DTC. Payments by DTC Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name" and will be the responsibility of such DTC Participant and not of DTC, the Trustee or the Funding Trust, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the Trustee, disbursement of such payments to DTC Participants will be the responsibility of DTC, and disbursement of such payments to Beneficial Owners will be the responsibility of DTC Participants and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Certificates at any time by giving reasonable notice to the Trustee. Under such circumstances, if a successor securities depository is not obtained, Certificate certificates are required to be prepared and delivered. The Funding Trust may decide to discontinue use of the system of book-entry transfers through DTC, or a successor Securities depository. In that event, Certificate certificates will be delivered to the Beneficial Owners of the Certificates.

Clearstream

Clearstream Banking, sociétè anonyme (**Clearstream**) is a limited liability company organized under Luxembourg law and is registered as a bank in Luxembourg. Clearstream holds securities for its Participants and facilitates the clearance and settlement of securities transactions between Clearstream Participants through electronic book-entry changes in accounts of Clearstream Participants, thereby eliminating the need for physical movement of certificates. Clearstream provides to Clearstream Participants, among other things, services for safekeeping, administration, clearance, and settlement of internationally traded securities and securities lending and borrowing. Clearstream Participants are financial institutions around the world, including underwriters, securities brokers and dealers, banks, trust companies, and clearing corporations. Indirect access to Clearstream is also available to others, such as banks, brokers, dealers, and trust companies that clear through or maintain a custodial relationship with a Clearstream Participant, either directly or indirectly.

Euroclear

Euroclear was created in 1968 to hold securities for its participants and to clear and settle transactions between its participants through simultaneous electronic book-entry delivery against payment, thereby eliminating the need for physical movement of certificates and any risk from lack of simultaneous transfers of securities and cash. The Euroclear System is owned by Euroclear plc and operated through a license agreement by Euroclear Bank S.A./N.V., a bank incorporated under the laws of the Kingdom of Belgium (**Euroclear Operator**).

The Euroclear Operator holds securities and book-entry interests in securities for participating organizations and facilities the clearance and settlement of securities transactions between Euroclear Participants, and between Euroclear Participants and Participants of certain other securities intermediaries through electronic book-entry changes in accounts of such Participants or other securities intermediaries.

The Euroclear Operator provides Euroclear Participants, among other things, with safekeeping, administration, clearance and settlement, securities lending and borrowing, and related services. Non-Participants of Euroclear or any other securities intermediary that holds a book-entry interest in the Certificates through one or more securities intermediaries standing between such other securities intermediary and the Euroclear Operator.

The Euroclear Operator is regulated and examined by the Belgian Banking and Finance Commission and the National Bank of Belgium.

Securities clearance accounts and cash accounts with the Euroclear Operator are governed by the Terms and Conditions Governing Use of Euroclear and the related Operating Procedures of the Euroclear System, and applicable Belgian law (collectively, **Terms and Conditions**). The Terms and Conditions govern transfers of securities and cash within Euroclear, withdrawals of securities and cash from Euroclear, and receipts of payments with respect to securities in Euroclear. All securities in Euroclear are held on a fungible basis without attribution of specific certificates to specific securities clearance accounts. The Euroclear Operator acts under the Terms and Conditions only on behalf of Euroclear Participants and has no record of or relationship with Persons holding through Euroclear Participants.

Initial Settlement

All global securities will be held in book-entry form by The Depository Trust Company in the name of Cede & Co. as nominee of The Depository Trust Company. Investors' interests in the global securities will be represented through financial institutions acting on behalf of their participants through their respective depositaries, which in turn will hold such positions in accounts as participants of The Depository Trust Company.

Investors electing to hold their global securities through The Depository Trust Company will follow the settlement practices applicable to prior asset-backed certificates issues. Investor securities custody accounts will be credited with their holdings against payment in same-day funds on the settlement date.

Investors electing to hold their global securities through Clearstream, Luxembourg or Euroclear accounts will follow the settlement procedures applicable to conventional Eurobonds, except that there will be no temporary global security and no "lock-up" or restricted period. Global securities will be credited to the securities custody accounts on the settlement date against payment in same-day funds.

Secondary Market Trading

Since the purchaser determines the place of delivery, it is important to establish at the time of the trade where both the purchaser's and seller's accounts are located to ensure that settlement can be made on the desired value date.

Trading between Participants of The Depository Trust Company. Secondary market trading between participants of The Depository Trust Company will be settled using the procedures applicable to prior student loan asset-backed securities issues in same-day funds.

Trading between Clearstream, Luxembourg and~or Euroclear Participants. Secondary market trading between Clearstream, Luxembourg participants or Euroclear participants will be settled using the procedures applicable to conventional eurobonds in same-day funds.

Trading between The Depository Trust Company Seller and Clearstream, Luxembourg or Euroclear Purchaser. When global securities are to be transferred from the account of a participant of The Depository Trust Company to the account of a Clearstream, Luxembourg participant or a Euroclear participant, the purchaser will send instructions to Clearstream, Luxembourg or Euroclear through a Clearstream, Luxembourg participant or Euroclear participant at least one business day prior to settlement. Clearstream, Luxembourg or Euroclear will instruct the respective depositary, as the case may be, to receive the global securities against payment. Payment will include interest accrued on the global securities from and including the last coupon payment date to and excluding the settlement date, on the basis of the actual number of days in such accrual period and a year assumed to consist of 360 days, or a 360-day year of twelve 30-day months, as applicable. For transactions settling on the 31 st of the month, payment
will include interest accrued to and excluding the first day of the following month. Payment will then be made by the respective depositary of the account of the participant of The Depository Trust Company against delivery of the global securities. After settlement has been completed, the global securities will be credited to the respective clearing system and by the clearing system, in accordance with its usual procedures, to the

Clearstream, Luxembourg participant's or Euroclear participant's account. The securities credit will appear the next day (European time) and the cash debt will be back-valued to, and the interest on the global securities will accrue from, the value date (which would be the preceding day when settlement occurred in New York). If settlement is not completed on the intended value date (*i.e.*, the trade fails), the Clearstream, Luxembourg, or Euroclear cash debt will be valued instead as of the actual settlement date.

Clearstream, Luxembourg participants and Euroclear participants will need to make available to the respective clearing systems the funds necessary to process same-day funds settlement. The most direct means of doing so is to preposition funds for settlement, either from cash on hand or existing lines of credit, as they would for any settlement occurring within Clearstream, Luxembourg or Euroclear. Under this approach, they may take on credit exposure to Clearstream, Luxembourg or Euroclear until the global securities are credited to their accounts one day later.

As an alternative, if Clearstream, Luxembourg or Euroclear has extended a line of credit to them, Clearstream, Luxembourg participants or Euroclear participants can elect not to preposition funds and allow that credit line to be drawn upon the finance settlement. Under this procedure, Clearstream, Luxembourg participants or Euroclear participants purchasing global securities would incur overdraft charges for one day, assuming they cleared the overdraft when the global securities were credited to their accounts. However, interest on the global securities would accrue from the value date. Therefore, in many cases the investment income on the global securities earned during that one-day period may substantially reduce or offset the amount of such overdraft charges, although this result will depend on each Clearstream, Luxembourg participant's or Euroclear participant's particular cost of funds.

Since the settlement is taking place during New York business hours, participants of The Depository Trust Company can employ their usual procedures for sending global securities to the respective European depositary for the benefit of Clearstream, Luxembourg participants or Euroclear participants. The sale proceeds will be available to The Depository Trust Company seller on the settlement date. Thus, to participants of The Depository Trust Company a crossmarket transaction will settle no differently than a trade between two participants of The Depository Trust Company.

Trading between Clearstream, Luxembourg or Euroclear Seller and The Depository Trust Company Purchaser. Due to time zone differences in their favor, Clearstream, Luxembourg participants and Euroclear participants may employ their customary procedures for transactions in which global securities are to be transferred from the respective clearing system, through the respective depositary, to a participant of The Depository Trust Company. The seller will send instructions to Clearstream, Luxembourg or Euroclear through a Clearstream, Luxembourg participant or Euroclear participant at least one business day prior to settlement. In these cases, Clearstream, Luxembourg or Euroclear will instruct the depositary, as appropriate, to deliver the global securities to the account of the participant of The Depository Trust Company against payment. Payment will include interest accrued on the global securities from and including the last coupon payment to and excluding the settlement date on the basis of the actual number of days in such accrual period and a year assumed to consist of 360 days, or a 360-day year of twelve 30-day months, as applicable. For transactions settling on the 31 st of the month, payment will include interest accrued to and excluding the first day of the following month. The payment will then be reflected in the account of the Clearstream, Luxembourg participant or Euroclear participant the following day, and receipt of the cash proceeds in the Clearstream, Luxembourg participant's or Euroclear participant's account would be back-valued to the value date (which would be the preceding day, when settlement occurred in New York). Should the Clearstream, Luxembourg participant or Euroclear participant have a line of credit with its respective clearing system and elect to be in debt in anticipation of receipt of the sale proceeds in its account, the back-valuation will extinguish any overdraft incurred over that one-day period. If settlement is not completed on the intended value date (*i.e.*, the trade fails), receipt of the cash proceeds in the Clearstream, Luxembourg participant's or Euroclear participant's account would instead be valued as of the actual settlement date.

Finally, day traders that use Clearstream, Luxembourg or Euroclear and that purchase global securities from participants of The Depository Trust Company for delivery to Clearstream, Luxembourg participants or Euroclear participants should note that these trades would automatically fail on the sale side unless affirmative action were taken. At least three techniques should be readily available to eliminate this potential problem:

- Borrowing through Clearstream, Luxembourg or Euroclear for one day (until the purchase side of the day trade is reflected in their Clearstream, Luxembourg or Euroclear accounts) in accordance with the clearing system's customary procedures;
- Borrowing the global securities in the United States from a participant of The Depository Trust Company no later than one day prior to settlement, which would give the global securities sufficient time to be reflected in their Clearstream, Luxembourg or Euroclear accounts in order to settle the sale side of the trade; or
- Staggering the value dates for the buy and sell sides of the trade so that the value date for the purchase from the participant of The Depository Trust Company is at least one day prior to the value date for the sale to the Clearstream, Luxembourg participant or Euroclear participant.

Certain United States Federal Income Tax Documentation Requirements

A beneficial owner of global securities holding securities through Clearstream, Luxembourg, or Euroclear (or through The Depository Trust Company if the holder has an address outside the United States) will be subject to the 30% United States withholding tax that generally applies to payments of interest (including original issue discount) on registered debt issued by U.S. Persons, unless each clearing system, bank or other financial institution that holds customers' securities in the ordinary course of its trade or business in the chain of intermediaries between such beneficial owner and the United States entity required to withhold tax complies with applicable certification requirements and such beneficial owner takes one of the following steps to obtain an exemption or reduced tax rate.

Exemption for non-US. Persons (Form W-8BEN). Beneficial owners of global securities that are non-U.S. Persons can obtain a complete exemption from the withholding tax by filing a signed Form W-8BEN (Certificate of Foreign Status of Beneficial Owner for United States Withholding Tax). If the information shown on Form W-8BEN changes, a new Form W-8BEN must be filed within 30 days of such change.

Exemption for non-US. Persons with Effectively Connected Income (Form W-8ECI). A non-U.S. Person including a non-United States corporation or bank with a United States branch, for which the interest income is effectively connected with its conduct of a trade or business in the United States, can obtain an exemption from the withholding tax by filing Form W-8ECI (Exemption from Withholding of Tax on Income Effectively Connected with the Conduct of a Trade or Business in the United States).

Exemption or Reduced Rate for non-US. Persons Resident in Treaty Countries (Form W-8BEN). Non-U.S. Persons that are security owners residing in a country that has a tax treaty with the United States can obtain an exemption or reduced tax rate (depending on the treaty terms) by filing Form W-8BEN (including Part II thereof).

Exemption for US. Persons (Form W-9). U.S. Persons can obtain a complete exemption from the withholding tax by filing Form W-9 (Payer's Request for Taxpayer Identification Number and Certification).

United States Federal lncome Tax Reporting Procedure. The owner of a global security files by submitting the appropriate form to the person through whom it holds (the clearing agency, in the case of persons holding directly on the books of the clearing agency). Form W-8BEN and Form W-8ECI are effective until the third calendar year from the date the form is signed.

The term "U.S. Person" means:

- A citizen or resident of the United States;
- A corporation or partnership, or other entity taxable as such, organized in or under the laws of the United States or any state (including the District of Columbia);
- An estate the income of which is includible in gross income for United States tax purposes, regardless of its source; or
- A trust, if a court within the United States is able to exercise primary supervision over its administration and one or more U.S. persons have the authority to control all substantial decisions of the trust.

Custody

Investors who are Euroclear Participants may acquire, hold, or transfer interests in the securities by book-entry to accounts with Euroclear Operator. Investors who are not Participants of Euroclear may acquire, hold, or transfer interests in the securities by book-entry to accounts with a securities intermediary who holds a book-entry interest in the securities through accounts with Euroclear.

Custody Risks

Investors that acquire, hold, and transfer interest in the securities by book-entry through accounts with the Euroclear Operator or any other securities intermediary are subject to the laws and contractual provisions governing their relationship with their intermediary, as well as the laws and contractual provisions governing the relationship between such an intermediary and each other intermediary, if any, standing between themselves and the individual securities.

The Euroclear Operator has advised as follows:

Under Belgian law, investors that are credited with securities on the records of the Euroclear Operator have a co-property right in the fungible pool of interests in securities on deposit with the Euroclear Operator in an amount equal to the amount of interests in securities credited to their accounts. In the event of the solvency of the Euroclear Operator, Euroclear Participants would have a right under Belgian law to the return of the amount and type of interests in securities credited to their accounts with the Euroclear Operator. If the Euroclear Operator did not have a sufficient amount of interests in securities on deposit of a particular type to cover the claims of all Euroclear Participants credited with such interests in securities on the Euroclear Operator's records, all Euroclear Participants having an amount of interests in securities of such type credited to their accounts with the Euroclear Operator would have the right under Belgian law to the return of their *pro rata* share of the amount of interests in securities actually on deposit.

Under Belgian law, the Euroclear Operator is required to pass on the benefits of ownership in any interests in securities on deposit with it (such as dividends, voting rights, and other entitlements) to any person credited with such interests in securities on its records.

Distributions

Distributions with respect to Certificates held through Clearstream or Euroclear will be credited to the cash accounts of Clearstream Participants or Euroclear Participants in accordance with the relevant system's rules and procedures, to the extent received by its Depository. Such distributions will be subject to tax reporting in accordance with relevant United States tax laws and regulations. See "UNITED STATES FEDERAL TAX CONSIDERATIONS - Information Reporting and Backup Withholding" in the Offering Circular which precedes this Appendix. Clearstream or the Euroclear Operator, as the case may be, will take any other action permitted to be taken by a beneficial owner of the Certificates under the Indenture on behalf

of a Clearstream Participant or Euroclear Participant only in accordance with its relevant rules and procedures and subject to its Depository's ability to effect such actions on its behalf through DTC.

DTC, Clearstream, and Euroclear are under no obligation to perform or continue to perform the foregoing procedures, and such procedures may be discontinued at any time.

No one can give any assurance that DTC, Clearstream, or Euroclear, or any of their direct or indirect Participants, will promptly transfer payments or notices received with respect to the Certificates. The Funding Trust, the Trustee, the Service Corporations and the City are not responsible for the failure of any of those parties to transfer to the Beneficial Owner payments or notices received with respect to the Certificates.

Similarly, no one can give any assurance that any Depository will abide by its procedures or that its procedures will not be changed. In the event the Trustee on behalf of the Funding Trust designates a successor securities depository for the Certificates, the successor may establish different procedures

DETROIT.1804606.1

APPENDIX E

INFORMATION ABOUT FINANCIAL GUARANTY

Financial Guaranty has supplied the following information for inclusion in this APPENDIX E. No representation is made by the Funding Trust, the Service Corporations, the City or the Underwriters as to the accuracy or completeness of this information.

Payments Under the FGIC Policy

Concurrently with the issuance of the FGIC-insured Certificates, Financial Guaranty Insurance Company ("Financial Guaranty") will issue its Municipal Certificate New Issue Insurance Policy for the FGIC-insured Certificates (the "FGIC Policy"). The FGIC Policy unconditionally guarantees the payment of that portion of the principal and interest on the FGIC-insured Certificates which has become due for payment, but shall be unpaid by reason of nonpayment of the FGIC-insured Certificates by the Funding Trust (the "Issuer"). Financial Guaranty will make such payments to U.S. Bank Trust National Association, or its successor as its agent (the "Fiscal Agent"), on the later of the date on which such principal or interest (as applicable) is due or on the business day next following the day on which Financial Guaranty shall have received notice (in accordance with the terms of the FGIC Policy) from an owner of FGIC-insured Certificates or the trustee or paying agent (if any) of the nonpayment of such amount by the Issuer. The Fiscal Agent will disburse such amount due on any FGIC-insured Certificate to its owner upon receipt by the Fiscal Agent of evidence satisfactory to the Fiscal Agent of the owner's right to receive payment of the principal or interest (as applicable) due for payment and evidence, including any appropriate instruments of assignment, that all of such owner's rights to payment of such principal or interest (as applicable) shall be vested in Financial Guaranty. The term "nonpayment" in respect of a FGIC-insured Certificate includes any payment of principal or interest (as applicable) made to an owner of a FGIC-insured Certificate which has been recovered from such owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction.

Once issued, the FGIC Policy is non-cancellable by Financial Guaranty. The FGIC Policy covers failure to pay principal of the FGIC-insured Certificates on their stated maturity dates and their mandatory sinking fund redemption dates, and not on any other date on which the FGIC-insured Certificates may have been otherwise called for redemption, accelerated or advanced in maturity. The FGIC Policy also covers the failure to pay interest on the stated date for its payment. In the event that payment of the FGIC-insured Certificates is accelerated, Financial Guaranty will only be obligated to pay principal and interest in the originally scheduled amounts on the originally scheduled payment dates. Upon such payment, Financial Guaranty will become the owner of the FGIC-insured Certificate, appurtenant coupon or right to payment of principal or interest on such FGIC-insured Certificate and will be fully subrogated to all of the FGIC-insured Certificateholder's rights thereunder.

The FGIC Policy does not insure any risk other than Nonpayment by the Issuer, as defined in the FGIC Policy. Specifically, the FGIC Policy does not cover: (i) payment on acceleration, as a result of a call for redemption (other than mandatory sinking fund redemption) or as a result of any other advancement of maturity; (ii) payment of any redemption, prepayment or acceleration premium; or (iii) nonpayment of principal or interest caused by the insolvency or negligence or any other act or omission of the trustee or paying agent, if any.

As a condition of its commitment to insure FGIC-insured Certificates, Financial Guaranty may be granted certain rights under the FGIC-insured Certificate documentation. The specific rights, if any,

granted to Financial Guaranty in connection with its insurance of the FGIC-insured Certificates may be set forth in the description of the principal legal documents appearing elsewhere in the Offering Circular which precedes this Appendix, and reference should be made thereto.

The FGIC Policy is not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

Financial Guaranty Insurance Company

Financial Guaranty, a New York stock insurance corporation, is a direct, wholly-owned subsidiary of FGIC Corporation, a Delaware corporation, and provides financial guaranty insurance for public finance and structured finance obligations. Financial Guaranty is licensed to engage in financial guaranty insurance in all 50 states, the District of Columbia and the Commonwealth of Puerto Rico and, through a branch, in the United Kingdom.

On December 18, 2003, an investor group consisting of The PMI Group, Inc. ("PMI"), affiliates of The Blackstone Group L.P. ("Blackstone"), affiliates of The Cypress Group L.L.C. ("Cypress") and affiliates of CIVC Partners L.P. ("CIVC") acquired FGIC Corporation (the "FGIC Acquisition") from a subsidiary of General Electric Capital Corporation ("GE Capital"). PMI, Blackstone, Cypress and CIVC acquired approximately 42%, 23%, 23% and 7%, respectively, of FGIC Corporation's common stock. FGIC Corporation paid GE Capital approximately $284.3 million in pre-closing dividends from the proceeds of dividends it, in turn, had received from Financial Guaranty, and GE Capital retained approximately $234.6 million in liquidation preference of FGIC Corporation's convertible participating preferred stock and approximately 5% of FGIC Corporation's common stock. Neither FGIC Corporation nor any of its shareholders is obligated to pay any debts of Financial Guaranty or any claims under any insurance policy, including the FGIC Policy, issued by Financial Guaranty.

Financial Guaranty is subject to the insurance laws and regulations of the State of New York, where it is domiciled, including Article 69 of the New York Insurance Law ("Article 69"), a comprehensive financial guaranty insurance statute. Financial Guaranty is also subject to the insurance laws and regulations of all other jurisdictions in which it is licensed to transact insurance business. The insurance laws and regulations, as well as the level of supervisory authority that may be exercised by the various insurance regulators, vary by jurisdiction, but generally require insurance companies to maintain minimum standards of business conduct and solvency, to meet certain financial tests, to comply with requirements concerning permitted investments and the use of policy forms and premium rates and to file quarterly and annual financial statements on the basis of statutory accounting principles ("SAP") and other reports. In addition, Article 69, among other things, limits the business of each financial guaranty insurer, including Financial Guaranty, to financial guaranty insurance and certain related lines.

For the three months ended March 31, 2005, and the years ended December 31, 2004, and December 31, 2003, Financial Guaranty had written directly or assumed through reinsurance, guaranties of approximately $14.8 billion, $59.5 billion and $42.4 billion par value of securities, respectively (of which approximately 71%, 56% and 79%, respectively, constituted guaranties of municipal FGIC-insured Certificates), for which it had collected gross premiums of approximately $84.4 million, $323.6 million and $260.3 million, respectively. For the three months ended March 31, 2005, Financial Guaranty had reinsured, through facultative and excess of loss arrangements, approximately 0.5% of the risks it had written.

As of March 31, 2005, Financial Guaranty had net admitted assets of approximately $3.215 billion, total liabilities of approximately $2.040 billion, and total capital and FGIC Policyholders'

surplus of approximately $1.175 billion, determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

The unaudited financial statements of Financial Guaranty as of March 31, 2005, the audited financial statements of Financial Guaranty as of December 31, 2004, and the audited financial statements of Financial Guaranty as of December 31, 2003, which have been filed with the Nationally Recognized Municipal Securities Information Repositories ("NRMSIRs"), are hereby included by specific reference in this Appendix. Any statement contained herein under the heading "APPENDIX E" in the Offering Circular, or in any documents included by specific reference herein, shall be modified or superseded to the extent required by any statement in any document subsequently filed by Financial Guaranty with such NRMSIRs, and shall not be deemed, except as so modified or superseded, to constitute a part of this Appendix or the Offering Circular. All financial statements of Financial Guaranty (if any) included in documents filed by Financial Guaranty with the NRMSIRs subsequent to the date of the Offering Circular and prior to the termination of the offering of the FGIC-insured Certificates shall be deemed to be included by specific reference into this Appendix and to be a part hereof from the respective dates of filing of such documents.

Financial Guaranty also prepares quarterly and annual financial statements on the basis of generally accepted accounting principles. Copies of Financial Guaranty's most recent GAAP and SAP financial statements are available upon request to: Financial Guaranty Insurance Company, 125 Park Avenue, New York, NY 10017, Attention: Corporate Communications Department. Financial Guaranty's telephone number is (212) 312-3000.

Financial Guaranty's Credit Ratings

The financial strength of Financial Guaranty is rated "AAA" by Standard & Poor's, a Division of The McGraw-Hill Companies, Inc., "Aaa" by Moody's Investors Service, and "AAA" by Fitch Ratings. Each rating of Financial Guaranty should be evaluated independently. The ratings reflect the respective ratings agencies' current assessments of the insurance financial strength of Financial Guaranty. Any further explanation of any rating may be obtained only from the applicable rating agency. These ratings are not recommendations to buy, sell or hold the FGIC-insured Certificates, and are subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of the FGIC-insured Certificates. Financial Guaranty does not guarantee the market price or investment value of the FGIC-insured Certificates nor does it guarantee that the ratings on the FGIC-insured Certificates will not be revised or withdrawn.

Neither Financial Guaranty nor any of its affiliates accepts any responsibility for the accuracy or completeness of the Offering Circular which precedes this Appendix or any information or disclosure that is provided to potential purchasers of the FGIC-insured Certificates, or omitted from such disclosure, other than with respect to the accuracy of information with respect to Financial Guaranty or the FGIC Policy herein under the heading "APPENDIX E" in the Offering Circular. In addition, Financial Guaranty makes no representation regarding the FGIC-insured Certificates or the advisability of investing in the FGIC-insured Certificates.

FGIC

Financial Guaranty Insurance Company
125 Park Avenue
New York, NY 10017
T 212-312-3000
T 800-352-0001

Municipal Bond
New Issue Insurance Policy

Issuer:	**Policy Number:**
	Control Number: 0010001
Bonds:	**Premium:**

SPECIMEN

Financial Guaranty Insurance Company ("Financial Guaranty"), a New York stock insurance company, in consideration of the payment of the premium and subject to the terms of this Policy, hereby unconditionally and irrevocably agrees to pay to U.S. Bank Trust National Association or its successor, as its agent (the "Fiscal Agent"), for the benefit of Bondholders, that portion of the principal and interest on the above-described debt obligations (the "Bonds") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

Financial Guaranty will make such payments to the Fiscal Agent on the date such principal or interest becomes Due for Payment or on the Business Day next following the day on which Financial Guaranty shall have received Notice of Nonpayment, whichever is later. The Fiscal Agent will disburse to the Bondholder the face amount of principal and interest which is then Due for Payment but is unpaid by reason of Nonpayment by the Issuer but only upon receipt by the Fiscal Agent, in form reasonably satisfactory to it, of (i) evidence of the Bondholder's right to receive payment of the principal or interest Due for Payment and (ii) evidence, including any appropriate instruments of assignment, that all of the Bondholder's rights to payment of such principal or interest Due for Payment shall thereupon vest in Financial Guaranty. Upon such disbursement, Financial Guaranty shall become the owner of the Bond, appurtenant coupon or right to payment of principal or interest on such Bond and shall be fully subrogated to all of the Bondholder's rights thereunder, including the Bondholder's right to payment thereof.

This Policy is non-cancellable for any reason. The premium on this Policy is not refundable for any reason, including the payment of the Bonds prior to their maturity. This Policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Bond.

As used herein, the term "Bondholder" means, as to a particular Bond, the person other than the Issuer who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof. "Due for Payment" means, when referring to the principal of a Bond, the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity and means, when referring to interest on a Bond, the stated date for payment of interest. "Nonpayment" in respect of a Bond means the failure of the Issuer to have provided sufficient funds to the paying agent for payment in full of all

FGIC

Financial Guaranty Insurance Company
125 Park Avenue
New York, NY 10017
T 212·312·3000
T 800·352·0001

Municipal Bond
New Issue Insurance Policy

principal and interest Due for Payment on such Bond. "Notice" means telephonic or telegraphic notice, subsequently confirmed in writing, or written notice by registered or certified mail, from a Bondholder or a paying agent for the Bonds to Financial Guaranty. "Business Day" means any day other than a Saturday, Sunday or a day on which the Fiscal Agent is authorized by law to remain closed.

In Witness Whereof, Financial Guaranty has caused this Policy to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

SPECIMEN

President

Effective Date: **Authorized Representative**

U.S. Bank Trust National Association, acknowledges that it has agreed to perform the duties of Fiscal Agent under this Policy.

Authorized Officer

FGIC

Financial Guaranty Insurance Company
125 Park Avenue
New York, NY 10017
T 212·312·3000
T 800·352·0001

Endorsement
To Financial Guaranty Insurance Company Insurance Policy

Policy Number: **Control Number:** 0010001

SPECIMEN

It is further understood that the term "Nonpayment" in respect of a Bond includes any payment of principal or interest made to a Bondholder by or on behalf of the issuer of such Bond which has been recovered from such Bondholder pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction.

NOTHING HEREIN SHALL BE CONSTRUED TO WAIVE, ALTER, REDUCE OR AMEND COVERAGE IN ANY OTHER SECTION OF THE POLICY. IF FOUND CONTRARY TO THE POLICY LANGUAGE, THE TERMS OF THIS ENDORSEMENT SUPERSEDE THE POLICY LANGUAGE.

In Witness Whereof, Financial Guaranty has caused this Endorsement to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

President

Effective Date: **Authorized Representative**

Acknowledged as of the Effective Date written above:

Authorized Officer
U.S. Bank Trust National Association, as Fiscal Agent

FGIC

Financial Guaranty Insurance Company
125 Park Avenue
New York, NY 10017
T 212·312·3000
T 800·352·0001

Endorsement
To Financial Guaranty Insurance Company Insurance Policy

Policy Number: **Control Number:** 0010001

SPECIMEN

Notwithstanding the terms and provisions contained in this Policy, it is further understood that the term "Bondholder" shall not include the ___________ [Conduit Obligor] (as such term is defined in the bond documentation).

NOTHING HEREIN SHALL BE CONSTRUED TO WAIVE, ALTER, REDUCE OR AMEND COVERAGE IN ANY OTHER SECTION OF THE POLICY. IF FOUND CONTRARY TO THE POLICY LANGUAGE, THE TERMS OF THIS ENDORSEMENT SUPERSEDE THE POLICY LANGUAGE.

In Witness Whereof, Financial Guaranty has caused this Endorsement to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

President

Effective Date: **Authorized Representative**

Acknowledged as of the Effective Date written above:

Authorized Officer
U.S. Bank Trust National Association, as Fiscal Agent

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APPENDIX F

INFORMATION ABOUT XL CAPITAL ASSURANCE INC.

The following information has been supplied by XL Capital Assurance Inc. for inclusion in this APPENDIX F. No representation is made by the Funding Trust, the Service Corporations, the City or the Underwriters as to the accuracy or completeness of the information.

XLCA accepts no responsibility for the accuracy or completeness of the Offering Circular which precedes this Appendix or any other information or disclosure contained therein, or omitted therefrom, other than with respect to the accuracy of the information regarding XLCA and its affiliates set forth in this APPENDIX F. In addition, XLCA makes no representation regarding the XLCA-insured Certificates or the advisability of investing in the XLCA-insured Certificates.

General

XL Capital Assurance Inc. ("XLCA") is a monoline financial guaranty insurance company incorporated under the laws of the State of New York. XLCA is currently licensed to do insurance business in, and is subject to the insurance regulation and supervision by, all 50 states, the District of Columbia, Puerto Rico, the U.S. Virgin Islands and Singapore.

XLCA is an indirect wholly owned subsidiary of XL Capital Ltd, a Cayman Islands corporation ("XL Capital Ltd"). Through its subsidiaries, XL Capital Ltd is a leading provider of insurance and reinsurance coverages and financial products to industrial, commercial and professional service firms, insurance companies and other enterprises on a worldwide basis. The common stock of XL Capital Ltd is publicly traded in the United States and listed on the New York Stock Exchange (NYSE: XL). **XL Capital Ltd is not obligated to pay the debts of or claims against XLCA.**

XLCA was formerly known as The London Assurance of America Inc. ("London"), which was incorporated on July 25, 1991 under the laws of the State of New York. On February 22, 2001, XL Reinsurance America Inc. ("XL Re") acquired 100% of the stock of London. XL Re merged its former financial guaranty subsidiary, known as XL Capital Assurance Inc. (formed September 13, 1999) with and into London, with London as the surviving entity. London immediately changed its name to XL Capital Assurance Inc. All previous business of London was 100% reinsured to Royal Indemnity Company, the previous owner at the time of acquisition.

Reinsurance

XLCA has entered into a facultative quota share reinsurance agreement with XL Financial Assurance Ltd ("XLFA"), an insurance company organized under the laws of Bermuda, and an affiliate of XLCA. Pursuant to this reinsurance agreement, XLCA expects to cede up to 90% of its business to XLFA. XLCA may also cede reinsurance to third parties on a transaction-specific basis, which cessions may be any or a combination of quota share, first loss or excess of loss. Such reinsurance is used by XLCA as a risk management device and to comply with statutory and rating agency requirements and does not alter or limit XLCA's obligations under any financial guaranty insurance policy. With respect to any transaction insured by XLCA, the percentage of risk ceded to XLFA may be less than 90% depending on certain factors including, without limitation, whether XLCA has obtained third party reinsurance covering the risk. As a result, there can be no assurance as to the percentage reinsured by XLFA of any given financial guaranty insurance policy issued by XLCA, including its XLCA Policy (as defined below).

Based on the audited financials of XLFA, as of December 31, 2004, XLFA had total assets, liabilities, redeemable preferred shares and shareholders' equity of $1,173,450,000, $558,655,000, $39,000,000 and $575,795,000, respectively, determined in accordance with generally accepted accounting principles in the United States ("US GAAP"). XLFA's insurance financial strength is rated "Aaa" by Moody's and "AAA" by S&P and Fitch Inc. In addition, XLFA has obtained a financial enhancement rating of "AAA" from S&P.

The obligations of XLFA to XLCA under the reinsurance agreement described above are unconditionally guaranteed by XL Insurance (Bermuda) Ltd ("XLI"), a Bermuda company and one of the world's leading excess commercial XLCAs. XLI is a wholly owned indirect subsidiary of XL Capital Ltd. In addition to A.M. Best's rating of "A+" (Negative Outlook), XLI's insurance financial strength rating is "Aa2" (Outlook Negative) by Moody's, "AA-" by Standard & Poor's and "AA" (Ratings Watch Negative) by Fitch. The ratings of XLFA and XLI are not recommendations to buy, sell or hold securities, including the XLCA-insured Certificates and are subject to revision or withdrawal at any time by Moody's, Standard & Poor's or Fitch.

Notwithstanding the capital support provided to XLCA described in this section, the XLCA-insured Certificateholders will have direct recourse against XLCA only, and neither XLFA nor XLI will be directly liable to the XLCA-insured Certificateholders.

Financial Strength and Financial Enhancement Ratings of XLCA

XLCA's insurance financial strength is rated "Aaa" by Moody's and "AAA" by Standard & Poor's and Fitch, Inc. ("Fitch"). In addition, XLCA has obtained a financial enhancement rating of "AAA" from Standard & Poor's. These ratings reflect Moody's, Standard & Poor's and Fitch's current assessment of XLCA's creditworthiness and claims-paying ability as well as the reinsurance arrangement with XLFA described under "Reinsurance" above.

The above ratings are not recommendations to buy, sell or hold securities, including the XLCA-insured Certificates and are subject to revision or withdrawal at any time by Moody's, Standard & Poor's or Fitch. Any downward revision or withdrawal of these ratings may have an adverse effect on the market price of the XLCA-insured Certificates. XLCA does not guaranty the market price of the XLCA-insured Certificates nor does it guaranty that the ratings on the XLCA-insured Certificates will not be revised or withdrawn.

Capitalization of XLCA

Based on the audited financials of XLCA, as of December 31, 2004, XLCA had total assets, liabilities, and shareholder's equity of $827,815,000, $593,849,000, and $233,966,000, respectively, determined in accordance with U.S. GAAP.

Based on the unaudited statutory financial statements for XLCA as of December 31, 2004 filed with the State of New York Insurance Department, XLCA has total admitted assets of $341,937,445, total liabilities of $144,232,151 and total capital and surplus of $197,705,294 determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities ("SAP"). Based on the audited statutory financial statements for XLCA as of December 31, 2003 filed with the State of New York Insurance Department, XLCA has total admitted assets of $329,701,823, total liabilities of $121,635,535 and total capital and surplus of $208,066,288 determined in accordance with SAP.

Incorporation by Reference of Financials

For further information concerning XLCA and XLFA, see the financial statements of XLCA and XLFA, and the notes thereto, incorporated by reference in this Offering Circular. The financial

statements of XLCA and XLFA are included as exhibits to the periodic reports filed with the Securities and Exchange Commission (the "Commission") by XL Capital Ltd and may be reviewed at the EDGAR website maintained by the Commission. All financial statements of XLCA and XLFA included in, or as exhibits to, documents filed by XL Capital Ltd pursuant to Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 on or prior to the date of this Offering Circular, or after the date of this Offering Circular but prior to termination of the offering of the XLCA-insured Certificates, shall be deemed incorporated by reference in this Offering Circular. Except for the financial statements of XLCA and XLFA, no other information contained in XL Capital Ltd's reports filed with the Commission is incorporated by reference. Copies of the statutory quarterly and annual statements filed with the State of New York Insurance Department by XLCA are available upon request to the State of New York Insurance Department.

Regulation of XLCA

XLCA is regulated by the Superintendent of Insurance of the State of New York. In addition, XLCA is subject to regulation by the insurance laws and regulations of the other jurisdictions in which it is licensed. As a financial guaranty insurance company licensed in the State of New York, XLCA is subject to Article 69 of the New York Insurance Law, which, among other things, limits the business of each XLCA to financial guaranty insurance and related lines, prescribes minimum standards of solvency, including minimum capital requirements, establishes contingency, loss and unearned premium reserve requirements, requires the maintenance of minimum surplus to policyholders and limits the aggregate amount of insurance which may be written and the maximum size of any single risk exposure which may be assumed. XLCA is also required to file detailed annual financial statements with the New York Insurance Department and similar supervisory agencies in each of the other jurisdictions in which it is licensed.

The extent of state insurance regulation and supervision varies by jurisdiction, but New York and most other jurisdictions have laws and regulations prescribing permitted investments and governing the payment of dividends, transactions with affiliates, mergers, consolidations, acquisitions or sales of assets and incurrence of liabilities for borrowings.

THE FINANCIAL GUARANTY INSURANCE POLICIES ISSUED BY XLCA, INCLUDING THE XLCA POLICY, ARE NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

The principal executive offices of XLCA are located at 1221 Avenue of the Americas, New York, New York 10020 and its telephone number at this address is (212) 478-3400.

XLCA-insured Certificate Insurance Policy

Concurrently with the issuance of the particular Certificates specifically identified on the inside cover of the Offering Circular which precedes this Appendix (the "XLCA-insured Certificates"), XLCA will issue its financial guaranty insurance policy (the "XLCA Policy") for the XLCA-insured Certificates. The XLCA Policy guarantees the scheduled payment of principal of and interest on the XLCA-insured Certificates when due as set forth in the form of the policy included in this Appendix on the following pages.

XL CAPITAL ASSURANCE

1221 Avenue of the Americas
New York, New York 10020
Telephone: (212) 478-3400

MUNICIPAL BOND INSURANCE POLICY

ISSUER: [ ]

BONDS: [ ]

Policy No: [ ]

Effective Date: [ ]

XL Capital Assurance Inc. (XLCA), a New York stock insurance company, in consideration of the payment of the premium and subject to the terms of this Policy (which includes each endorsement attached hereto), hereby agrees unconditionally and irrevocably to pay to the trustee (the "Trustee") or the paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the benefit of the Owners of the Bonds or, at the election of XLCA, to each Owner, that portion of the principal and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment.

XLCA will pay such amounts to or for the benefit of the Owners on the later of the day on which such principal and interest becomes Due for Payment or one (1) Business Day following the Business Day on which XLCA shall have received Notice of Nonpayment (provided that Notice will be deemed received on a given Business Day if it is received prior to 10:00 a.m. New York time on such Business Day; otherwise it will be deemed received on the next Business Day), but only upon receipt by XLCA, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in XLCA. Upon such disbursement, XLCA shall become the owner of the Bond, any appurtenant coupon to the Bond or the right to receipt of payment of principal and interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by XLCA hereunder. Payment by XLCA to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of XLCA under this Policy.

In the event the Trustee or Paying Agent has notice that any payment of principal or interest on a Bond which has become Due for Payment and which is made to an Owner by or on behalf of the Issuer of the Bonds has been recovered from the Owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such Owner within the meaning of any applicable bankruptcy law, such Owner will be entitled to payment from XLCA to the extent of such recovery if sufficient funds are not otherwise available.

The following terms shall have the meanings specified for all purposes of this Policy, except to the extent such terms are expressly modified by an endorsement to this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment", when referring to the principal of Bonds, is when the stated maturity date or a mandatory redemption date for the application of a required sinking fund installment has been reached and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by application of required sinking fund installments), acceleration or other advancement of maturity, unless XLCA shall elect, in its sole discretion, to pay such principal due upon such acceleration; and, when referring to interest on the Bonds, is when the stated date for payment of interest has been reached. "Nonpayment" means the failure of the Issuer to have provided sufficient funds to the Trustee or Paying Agent for payment in full of all principal and interest on the Bonds which are Due for Payment. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to XLCA which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

XLCA may, by giving written notice to the Trustee and the Paying Agent, appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy. From and after the date of receipt by the Trustee and the Paying Agent of such notice, which shall specify the name and notice address of the Insurer's Fiscal Agent, (a) copies of all notices required to be delivered to XLCA pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to XCLA and shall not be deemed received until received by both and (b) all payments required to be made by XLCA under this Policy may be made directly by XLCA or by the Insurer's Fiscal Agent on behalf of XLCA. The Insurer's Fiscal Agent is the agent of XLCA only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of XLCA to deposit or cause to be deposited sufficient funds to make payments due hereunder.

Except to the extent expressly modified by an endorsement hereto, (a) this Policy is non-cancelable by XLCA, and (b) the Premium on this Policy is not refundable for any reason. This Policy does not insure against loss of any prepayment or other acceleration payment which at any time may become due in respect of any Bond, other than at the sole option of XLCA, nor against any risk other than Nonpayment. This Policy sets forth the full undertaking of XLCA and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto.

THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, XLCA has caused this Policy to be executed on its behalf by its duly authorized officers.

Name:	Name:
Title:	Title:

XLCAP-005
Form of Municipal Policy [Specimen]

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APPENDIX G

Form of Certificate Counsel Opinion

Upon the issuance and delivery of the Certificates, Certificate Counsel, Lewis & Munday, A Professional Corporation, proposes to deliver its opinion in substantially the following form:

LAW OFFICES
Lewis & Munday
A PROFESSIONAL CORPORATION
2490 First National Building
660 Woodward Avenue
Detroit, Michigan 48226

TELEPHONE (313) 961-2550
TELECOPIER (313) 961-1270

_______________, 2005

Detroit Retirement Systems Funding Trust 2005
c/o U.S. Bank National Association, as trustee
Detroit, Michigan

Ladies and Gentlemen:

We acted as Certificate Counsel in connection with the issuance by the Detroit Retirement Systems Funding Trust 2005 (the ***Funding Trust***) of the Certificates of Participation Series 2005-A and the Certificates of Participation Series 2005-B, (collectively, the ***Certificates***) and in that capacity we examined a transcript of the proceedings relating to the issuance of the Certificates.

The Funding Trust was created by the Trust Agreement, dated ___, 2005 (the ***Trust Agreement***), between the Detroit General Retirement System Service Corporation (the ***GRS Service Corporation***) and the Detroit Police and Fire Retirement System Service Corporation (the ***PFRS Service Corporation***), severally and not jointly, and U.S. Bank National Association, as trustee (the ***Trustee***). Each of the GRS Service Corporation and the PFRS Service Corporation is herein called a ***Service Corporation*** and collectively the ***Service Corporations***.

The Certificates are issued pursuant to the below defined Funding Ordinance and Service Contracts and under the Trust Agreement. The Certificates evidence undivided proportionate interests in the rights to receive certain payments (***Funding Trust Receivables***) to be made by the City of Detroit, Michigan (the ***City***), under (i) the Detroit General Retirement System Service Contract 2005, dated ________, 2005, between the City and the GRS Service Corporation and (ii) the Detroit Police and Fire Retirement System Service Contract 2005, dated _____________, 2005, between the City and the PFRS Service Corporation (each, a ***Service Contract*** and collectively, the ***Service Contracts***). The Service Corporations were created pursuant to Ordinance No. 05-05 of the City, which also authorized the Service Contracts, the formation of the Funding Trust by the Service Corporations and the issuance of certificates of participation thereunder (***Funding Ordinance***).

The Service Contracts are administered for the Service Corporations and the Funding Trust by U.S. Bank National Association (the ***Contract Administrator***), separately and not as

Trustee, pursuant to the Contract Administration Agreement, dated ________, 2005 (the ***Contract Administration Agreement***), among the Funding Trust, each of the Service Corporations, severally and not jointly, and the Contract Administrator.

The Certificates are issued for the purpose of funding specific amounts of the unfunded accrued actuarial liabilities (***Subject UAAL***) of each of the City's General Retirement System (the ***GRS***) and Police and Fire Retirement System (the ***PFRS*** and with the GRS, the ***Retirement Systems*** and each, a ***Retirement System***). Proceeds from the sale of the Certificates equal to the Subject UAAL are being used by the Funding Trust to purchase the right to receive the respective Corporation's Funding Trust Receivables, and, pursuant to the Service Contracts, these proceeds were paid to the Retirement Systems in the amounts of their respective Subject UAAL. The remainder of the proceeds from the sale of the Certificates is being used to pay costs of issuance of the Certificates and to prepay an amount of the service charges under the Service Contracts.

The effect of funding the Subject UAAL of each Retirement System under the respective Service Contract is to reduce the financial burden of the Retirement Systems to the City in the present and future years. In consideration for such services by the Service Corporations, the City agreed in each Service Contract to pay the Funding Trust Receivables, which include, as service charges, the funding costs of the Service Corporations in obtaining the capital represented by the Certificates.

Based on our examination of the transcript of the proceedings, we are of the opinion that:

1. Each Service Corporation validly exists as a nonprofit corporation under the laws of the State of Michigan and has the corporate power to enter into its Service Contract and the Trust Agreement.

2. Each Service Contract was validly authorized, executed and delivered by the respective Service Corporation and the City and is a valid and binding agreement of such Service Corporation and the City and is enforceable in accordance with its terms. Neither the faith and credit nor the taxing power nor any special revenues of the City are pledged to the payment of Funding Trust Receivables, and the obligation of the City to pay Funding Trust Receivables does not constitute indebtedness within the meaning of any limitation of Michigan law applicable to the City.

3. The Contract Administration Agreement was validly authorized, executed and delivered by each of the Service Corporations and, assuming valid authorization, execution and delivery by the Trustee on behalf of the Funding Trust and by the Contract Administrator, is a valid and binding agreement of each of the Service Corporations, enforceable in accordance with its terms.

4. The Trust Agreement was validly authorized, executed and delivered by each of the Service Corporations and, assuming valid authorization, execution and delivery by the Trustee, is a valid and binding agreement of each of the Service Corporations, enforceable in accordance with its terms.

5. The Funding Trust was validly created by the Trust Agreement and has the power to issue and deliver the Certificates.

6. The Certificates were validly issued and delivered by the Funding Trust and represent undivided interests in the Funding Trust Receivables in accordance with their terms.

The enforceability of the Service Contracts, the Contract Administration Agreement and the Trust Agreement may be limited or affected by bankruptcy, insolvency, reorganization, moratorium, and other similar laws affecting creditors' rights generally heretofore or hereafter enacted to the extent constitutionally applicable and may also be subject to the exercise of judicial discretion in accordance with general principles of equity.

Very truly yours,

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APPENDIX H

CONTINUING DISCLOSURE UNDERTAKING

This Continuing Disclosure Undertaking ("**Undertaking**") is executed and delivered by the City of Detroit, County of Wayne, State of Michigan ("**City**") in connection with the issuance of the $640,000,000 Detroit Retirement Systems Funding Trust 2005 Certificates of Participation Series 2005-A and $800,000,000 Detroit Retirement Systems Funding Trust 2005 Certificates of Participation Series 2005-B (collectively, "**Certificates**"). The City covenants and agrees for the benefit of the Certificateholders (as defined below) as follows:

(a) **Definitions**. The following terms used in this Undertaking have the following meanings:

"***Audited Financial Statements***" means the City's audited financial statements prepared by an individual or firm of independent certified public accountants as required by Act 2, Public Acts of Michigan, 1968, as amended, which presently requires preparation in accordance with generally accepted accounting principles.

"***Certificateholder***" means the registered owner of any Certificate or any person (a) with the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Certificate (including any person holding a Certificate through a nominee, depository or other intermediary) or (b) treated as the owner of any Certificate for federal income tax purposes.

"***Disclosure Representative***" means the Finance Director of the City or his designee, or such other officer, employee or agent as the City shall so designate from time to time in writing.

"***MSRB***" means the Municipal Securities Rulemaking Board.

"***NRMSIR***" means each nationally recognized municipal securities information repository as designated by the SEC in accordance with the Rule.

"***Rule***" means Rule 15c2-12 promulgated by the SEC pursuant to the Securities Exchange Act of 1934, as amended.

"***SEC***" means the United States Securities and Exchange Commission.

"***SID***" means the state information depository for the State of Michigan, if any, then designated by the SEC in accordance with the Rule, being the Michigan Municipal Advisory Council as of the date of this Undertaking.

(b) **Continuing Disclosure**. The City hereby agrees, in accordance with the provisions of the Rule, to provide or cause to be provided to each NRMSIR and to the SID, on or before the 210th day after the end of the fiscal year of the City, commencing with the fiscal year ended June 30, 2005, the Audited Financial Statements, and updates of certain financial and operating data of the City appearing under the headings and tables in the Offering Circular for the Certificates, as follows: Tables 1 through 30, and 41, inclusive in Appendix B to the Offering Circular.

Such annual financial information described above is expected to be provided directly by the City and in subsequent Official Statements of the City filed with the MSRB.

In the event that the Audited Financial Statements are not available by the date specified above, they will be provided when available and unaudited financial statements in a format similar to the financial statements contained in the Offering Circular will be filed by such date and the Audited Financial Statements will be filed as soon as available.

If the fiscal year of the City is changed, the City shall send notices of such change to each NRMSIR or the MSRB, and to the SID, prior to the earlier of the ending date of the fiscal year prior to such change or the ending date of the fiscal year as changed.

(c) **Notice of Failure to Disclose**. The City agrees to provide or cause to be provided, in a timely manner, to (i) each NRMSIR or the MSRB and (ii) the SID, notice of a failure by the City to provide the annual financial information with respect to the City described in subsection (b) above on or prior to the dates set forth in subsection (b) above.

(d) **Occurrence of Events**. The City agrees to provide or cause to be provided, in a timely manner, to (i) each NRMSIR or the MSRB and (ii) the SID, notice of the occurrence of any of the following events listed in (b)(5)(i)(C) of the Rule with respect to the Certificates, if applicable, if material:

(1) principal and interest payment delinquencies;
(2) non-payment related defaults;
(3) unscheduled draws on debt service reserves reflecting financial difficulties;*
(4) unscheduled draws on credit enhancements reflecting financial difficulties;
(5) substitution of credit or liquidity providers, or their failure to perform;
(6) adverse tax opinions or events affecting the tax-exempt status of the Certificates;*
(7) modifications to rights of holders of the Certificates;
(8) Certificate calls;
(9) defeasances;
(10) release, substitution, or sale of property securing repayment of the Certificates; and
(11) rating changes.

* (Events listed in clauses (3) & (6) above are not applicable to the Certificates.)

(e) **Materiality Determined Under Federal Securities Laws**. The City agrees that its determination of whether any event listed in subsection (d) is material shall be made in accordance with federal securities laws.

(f) **Termination of Reporting Obligation**. The obligation of the City to provide annual financial information and notices of material events, as set forth above, shall be terminated if and when the City no longer remains an "obligated person" with respect to the Certificates within the meaning of the Rule, specifically not including upon economic (as distinct from legal) defeasance of all Certificates.

(g) **Benefit of Certificateholders**. The City agrees that its undertaking pursuant to the Rule set forth in this Section is intended to be for the benefit of the Certificateholders and shall be enforceable by any Certificateholder; *provided,* that the right to enforce the provisions of this Undertaking shall be limited to a right to obtain specific enforcement of the City's obligations hereunder and any failure by the City to comply with the provisions of this Undertaking shall not constitute a default or an event of default with respect to the Certificates or under the Trust Agreement or Service Contracts mentioned in the Certificates.

(h) **Amendments to the Undertaking**. Amendments may be made in the specific types of information provided or the format of the presentation of such information to the extent deemed necessary or appropriate in the judgment of the Disclosure Representative on behalf of the City; *provided*, that the City agrees that any such amendment will be adopted procedurally and substantively in a manner consistent with the Rule, including any interpretations thereof by the SEC, which, to the extent applicable, are incorporated herein by reference. Such interpretations currently include the requirements that (a) the amendment may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law or change in the identity, nature or status of the City or the type of activities conducted by it, (b) the undertaking, as amended, would have complied with the requirements of the Rule at the time of the primary offering of the Certificates, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances, and (c) the amendment does not materially impair the interests of Certificateholders, as determined by parties unaffiliated with the City (such as independent legal counsel), *but* such interpretations may be changed in the future. If the accounting principles to be followed by the City in preparing the Audited Financial Statements are modified, the annual financial information for the year in which the change is made shall present a comparison between the financial statements as prepared on the prior basis and the statements as prepared on the new basis, and otherwise shall comply with the requirements of the Rule, in order to provide information to investors to enable them to evaluate the ability of the City to meet its obligations. A notice of the change in accounting principles shall be sent to each NRMSIR or the MSRB and the SID.

IN WITNESS WHEREOF, the City of Detroit has caused this Undertaking to be executed by its authorized officer.

CITY OF DETROIT
County of Wayne
State of Michigan

By ______________________________

Sean K. Werdlow
Its Finance Director

Dated as of ________, 2005

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